Return to BDA!

76-5091

Supreme Court, U. S.
FILED
OCT 12 1976
MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

OCTOBER TERM, 1976

No.

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MERRELL E. CLARK, JR.
WINTHROP, STIMSON, PUTNAM & ROBERTS
40 Wall Street
New York, New York 10005
Attorney for Petitioner

INDEX

PAGE

TABLE OF CASES, STATUTES AND OTHER AUTHORITIES ii

OPINIONS BELOW 1

JURISDICTION 2

THE QUESTION PRESENTED FOR REVIEW 2

STATEMENT OF THE CASE 3

REASONS FOR GRANTING THE WRIT 5

A. The Proper Administration of Justice Requires that Basic Standards Be Set by This Court To Govern the Increasing Use of Computerized Evidence, Including Specifically the Mandating of Disclosure of the Computer Program 6

1. There Is a Compelling Need for Proper Standards 6

2. The Computer Program Is of Central Importance 8

B. The Decision Below Conflicts with Decisions of Other Courts of Appeal Which Hold that Disclosure of the Computer Program Is Necessary as a Proper Foundation for Computer-Generated Evidence and for Meaningful Cross-Examination 10

1. Other Circuits Require Disclosure of Computer Programs as Foundation 10

2. Disclosure of the Computer Program Is Necessary for Meaningful Cross-Examination 12

CONCLUSION 15

Judgments, Motions, Orders, and Opinions are appended and indexed in a separate volume.

TABLE OF CASES, STATUTES AND OTHER AUTHORITIES

Cases

	PAGE
Berguido v. *Eastern Air Lines, Inc.*, 317 F.2d 628 (3d Cir.), *cert. denied*, 375 U.S. 895 (1963)	15
Ed Guth Realty, Inc. v. *Gingold*, 34 N.Y.2d 440, 315 N.E.2d 441, 358 N.Y.S.2d 367 (1974)	12
Edwards v. *Sears, Roebuck & Co.*, 512 F.2d 276 (5th Cir. 1975)	11
Gassett v. *State*, 532 S.W.2d 328 (Tex. Crim. App. 1976)	12
Pearl Brewing Co. v. *Jos. Schlitz Brewing Co.*, C.A. No. 71-H778A (S.D. Tex. filed May 3, 1976)	11, 13, 14
Perma Research & Development Co. v. *The Singer Co.*, Nos. 75-7362, 75-7405 (2d Cir., filed July 1, 1976)	1, 2
Perma Research & Development Co. v. *The Singer Co.*, 402 F. Supp. 881 (S.D.N.Y. 1975)	1
Reeves Instrument Corp. v. *Beckman Instruments, Inc.*, 444 F.2d 263 (9th Cir.), *cert. denied*, 404 U.S. 951 (1971)	9
United States v. *Baxter*, 492 F.2d 150 (9th Cir. 1973), *cert. denied*, 416 U.S. 940 (1974)	8
United States v. *DeGeorgia*, 420 F.2d 889 (9th Cir. 1969)	11, 12, 13
United States v. *Dioguardi*, 428 F.2d 1033 (2d Cir.), *cert. denied*, 400 U.S. 825 (1970)	13
United States v. *Fendley*, 522 F.2d 181 (5th Cir. 1975)	12, 13
United States v. *Kelly*, 420 F.2d 26 (2d Cir. 1969)	11
United States v. *Liebert*, 519 F.2d 542 (3d Cir.), *cert. denied*, 96 S. Ct. 392 (1975)	11, 12, 13, 14
United States v. *Russo*, 480 F.2d 1228 (6th Cir. 1973), *cert. denied*, 411 U.S. 1157 (1974)	11, 12, 13
W. D. Rubright Co. v. *International Harvester Co.*, 358 F. Supp. 1388 (W.D. Pa. 1973)	8

Statutes

	PAGE
28 U.S.C. § 1254(1) (1970)	2
28 U.S.C. § 1332(a)(1) (1970)	3

Other Authorities

ABA Sub-Committee on Data Processing, *Principles of Introduction of Machine Prepared Studies* (1964), in C.L.S.R. § 5-4.2	13
Brown, *Electronic Brains and the Legal Mind: Computing the Data Computer's Collision With Law*, 71 YALE L.J. 239 (1961)	8, 9
Federal Judicial Center, *Manual For Complex Litigation* (1973)	7, 8, 10, 11, 12, 13, 14
Note, *Computer Software: Beyond the Limits of Existing Proprietary Protection Policy*, 40 BROOKLYN L. REV. 116 (1973)	8
Op. Ga. Att'y Gen. (June 12, 1973), in 4 C.L.S.R. 1325	12
Roberts, *A Practitioner's Primer on Computer-Generated Evidence*, 41 U. CHI. L. REV. 254 (1974)	6, 8, 9, 12
Younger, *Computers and the Law of Evidence* (February 25, 1975), in 173 N.Y.L.J. No. 37, at 1	12

Supreme Court of the United States

OCTOBER TERM, 1976

No.

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner, The Singer Company (hereinafter "Singer"), seeks a writ of certiorari to review a Judgment of the United States Court of Appeals for the Second Circuit affirming a Judgment of the United States District Court for the Southern District of New York awarding Respondent, Perma Research & Development Company (hereinafter "Perma"), damages and interest in the amount of $6,905,376.69.

OPINIONS BELOW

The Opinion of the District Court after trial, dated April 11, 1975 is reported at 402 F. Supp. 881 (S.D.N.Y. 1975), and printed as Appendix G, pp. 51a-125a. The majority Opinion of the Court of Appeals, dated July 1, 1976, written by Mr. Justice Clark affirming the Judgment of the District

Court is presently unreported and printed as Appendix J, pp. 130a-139a. The dissenting Opinion is printed as Appendix J, pp. 139a-165a.*

JURISDICTION

The Judgment of the Court of Appeals sought to be reviewed was entered on July 1, 1976. Orders of the Court of Appeals denying Singer's timely Petition for Rehearing or for Rehearing In Banc were entered on September 2, 1976. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1) (1970).

THE QUESTION PRESENTED FOR REVIEW

Only in an Alice-in-Wonderland world would the result below seem possible. A $7,000,000 judgment was rendered against Singer for breach of an obligation (held to have been *implied,* because it was concededly not expressed in the detailed written contract) to perfect an unsafe and defective "anti-skid device" which the District Court found could have been perfected and successfully marketed despite the fact that (1) no models, no specifications, no drawings and no verbal descriptions existed of the hypothetical "perfected" device and (2) anti-skid devices with

*Singer's first Motion for Summary Judgment was denied by the District Court on March 29, 1968 in an unreported Opinion which is printed as Appendix A, pp. 1a-14a. This Opinion was affirmed by the Court of Appeals in an Opinion dated April 25, 1969, reported at 410 F.2d 572 (2d Cir. 1969), which is printed as Appendix C, pp. 18a-31a. Singer's second Motion for Summary Judgment was denied by the District Court in an Opinion and Order dated January 27, 1970, reported at 308 F. Supp. 743 (S.D.N.Y. 1970), which is printed as Appendix E, pp. 34a-46a. Singer's third Motion for Summary Judgment was denied by the District Court in an unreported Opinion and Order dated May 14, 1970, which is printed as Appendix F, pp. 47a-50a.

electronic improvements had admittedly been produced for sale by others but none had ever been sold in the principal market. Appendix G, pp. 82a, 88a.

What accounts for this astonishing result? We submit that the villain is a computer running amok.

The District Court's holding on both liability and damages was necessarily and expressly based upon the results of computer simulations prepared by Perma especially for trial. As stated in the dissenting Opinion below, "plaintiff's [Perma's] entire case rests upon the accuracy of its computerized calculations . . . ." Appendix J, p. 162a (dissenting Opinion). The results of the computer simulations were received in evidence, over objection, despite Perma's persistent refusal to disclose the "program" which controlled the computer's calculations.

The question presented for review is: did the Court of Appeals commit error in affirming the District Court's admission in evidence, over objection, and reliance upon the results of computer simulations prepared specifically for the purposes of trial where the proponent of the computer simulations refused to disclose the all-important computer program?

STATEMENT OF THE CASE

Singer had purchased from Perma the rights to certain patents on an "anti-skid device" for use on automobiles. The anti-skid device, however, was neither workable nor marketable when the patents were assigned, and Singer eventually abandoned its efforts to manufacture and market the device. Perma brought suit for lost prospective royalties alleging that Singer had failed to perform an implied contractual obligation to use its best efforts to perfect the device and make it marketable. Jurisdiction lay in the District Court under 28 U.S.C. § 1332(a)(1) (1970).

As an essential element of its case, Perma had to prove that the anti-skid device could have been perfected to the point where it possessed commercial utility. To meet this burden, Perma prepared computer simulations specifically for use at trial which purported to show the performance of a "perfected" anti-skid device incorporating unspecified engineering changes which Perma's expert thought would have made the device workable.

Basing his opinion on the results of these computer simulations, Perma's expert testified that the device could have been perfected and made commercially successful. Although preparation of the computer simulations by Perma's experts had commenced long before trial, Singer first learned of their existence when the results thereof were offered in evidence after two months of trial.

Singer objected to admission of the results of the computer simulations without disclosure of the computer program and moved that the program be disclosed. Perma refused to disclose the computer program and the District Court would not order it to do so. Singer then moved to strike the computer simulations and the exhibits and testimony based thereon. The District Court, after a one month delay, denied the motion to strike without explanation and refused to grant Singer time in which to prepare and offer computer simulations of its own.

The District Court held that the anti-skid device was perfectible and marketable and awarded damages of approximately $7,000,000. The only evidence cited in support of this ruling was the expert testimony proffered by Perma, which the District Court said had been received "on the basis of the computer simulations. . . ." Appendix G, p. 82a.

On appeal, Singer contended that this holding was erroneous since (a) failure to disclose the computer program rendered the computer simulations inadmissible for lack of foundation; and (b) failure to disclose the computer program deprived Singer of its right to meaningful cross-examination of Perma's experts.

The Court of Appeals affirmed. The majority Opinion by Mr. Justice Clark held (a) that disclosure of computer programs, admittedly containing the "data and scientific formulae employed", is not a required foundation for admission of the results of computer simulations; and (b) that disclosure of computer programs is not necessary to effective cross-examination of witnesses stating the results of computer simulations. Appendix J, pp. 136a-137a.

Judge Van Graafeiland in a vigorous dissent stated that the District Court's failure to require disclosure of the computer program "required defense counsel to attack the credibility of plaintiff's proof with one hand tied behind his back. . . ." Appendix J, p. 158a (dissenting Opinion). He added, "[a]s courts are drawn willy-nilly into the magic world of computerization, it is of utmost importance that appropriate standards be set for the introduction of computerized evidence." Appendix J, p. 158a (dissenting Opinion).

REASONS FOR GRANTING THE WRIT

This Court should now review the decision of the Court of Appeals because:

(a) The holding that computer-generated evidence created specifically for purposes of litigation is admissible, over objection, without disclosure of the computer program renders a decision on an important question of Federal law which has not been, but in light of the ever increasing importance of computer-generated evidence in Federal Courts, should be settled by this Court.

(b) The holding that computer-generated evidence created specifically for purposes of litigation is admissible, over objection, without disclosure of the computer program is in conflict with decisions of other Courts of Appeal holding that disclosure is necessary to proper foundation and to meaningful cross-examination.

A.

The Proper Administration of Justice Requires that Basic Standards Be Set by This Court To Govern the Increasing Use of Computerized Evidence, Including Specifically the Mandating of Disclosure of the Computer Program

1. There Is a Compelling Need for Proper Standards

It is well recognized both that computers will be increasingly used to provide evidence in trials and that their potential for producing useful evidence is matched by their potential for dangerous misuse:

> "Although the computer has tremendous potential for improving our system of justice by generating more meaningful evidence than was previously available, it presents a real danger of being the vehicle of introducing erroneous, misleading, or unreliable evidence. The possibility of an undetected error in computer-generated evidence is a function of many factors: the underlying data may be hearsay; errors may be introduced in any one of several stages of processing; the computer might be erroneously programmed, programmed to permit an error to go undetected, or programmed to introduce error into the data; and the computer may inaccurately display the data or display it in a biased manner. Because of the complexities of examining the creation of computer-generated evidence and the deceptively neat package in which the computer can display its work product, courts and practitioners must exercise more care with computer-generated evidence than with evidence generated by more traditional means." Roberts, *A Practitioner's Primer on Computer-Generated Evidence,* 41 U. CHI. L. REV. 254, 255-56 (1974) [hereinafter cited as *"Computer-Generated Evidence"*].

The growing problem of computer-generated evidence has been recognized in the *Manual for Complex Litigation:*

> "The rapid rate of technological development and the expanding range of applications of computers suggest that the problems are still in their infancy, and that the importance of computer based evidence can only increase with the passage of time." Federal Judicial Center, *Manual for Complex Litigation* § 2.714 (1973) [hereinafter cited as *"Manual for Complex Litigation"*].
>
> • • •
>
> "The spectacular developments in the use of computers including electronic data processors in the fields of science, industry, government and the professions have created unanticipated problems in the discovery and reception in evidence of computer processed data." *Manual for Complex Litigation* § 2.70.
>
> • • •
>
> "The legal profession in recent years has been confronted with the continuing problem of accommodating the rules of evidence to technological changes in our society. The difficulties in determining the admissibility of such evidence as x-rays, radar speed tests and lie detector tests are dwarfed by the new problems which have been created by the advent and increased use of electronic data processing and storage machinery." *Manual for Complex Litigation* § 2.714

As Judge Van Graafeiland noted in his dissent below, "[j]udicial decisions to date have largely skirted the edge of the problem because they have been concerned mainly with computerized records made in the regular course of business." Appendix J, p. 159a (dissenting Opinion). Under such circumstances, knowledge of the computer program is of less importance because the trustworthiness of the results of a computer's operation is authenticated by the fact that they are relied on daily in the course of business.

When a computer is programmed to produce evidence specifically for trial, however, there is no inherent guarantee of trustworthiness. *United States* v. *Baxter,* 492 F.2d 150, 165 (9th Cir. 1973), *cert. denied,* 416 U.S. 940 (1974); *W. D. Rubright Co.* v. *International Harvester Co.,* 358 F. Supp. 1388, 1403 (W.D. Pa. 1973). In cases similar to the one at bar, knowledge of the computer program is absolutely essential both as a proper foundation for the evidence and to permit meaningful cross-examination of witnesses testifying about the results of a computer's operations.

2. The Computer Program Is of Central Importance

A computer is a "machine [which] basically can do only what humans instruct it to do. . . ." *Manual for Complex Litigation* § 2.717. The instructions are contained in computer programs "which direct the hardware in its analysis of data. . . . " Note, *Computer Software: Beyond the Limits of Existing Proprietary Protection Policy,* 40 BROOKLYN L. REV. 116, 117 (1973). Computer programs have been described by Chief Judge Brown of the Court of Appeals for the Fifth Circuit as:

> ". . . the intricate step-by-step directions given to the computer concerning everything the computer is expected to do with respect to the data fed into it." Brown, *Electronic Brains and the Legal Mind: Computing the Data Computer's Collision With Law,* 71 YALE L.J. 239, 243 (1961).

The computer program, which contains the "logic" and mathematical and scientific assumptions of the computer simulations, "more than any other component of the computer system, reflects the skills and creativity of an individual or individuals." *Computer-Generated Evidence,* 41 U. CHI. L. REV. at 260. As computer programs are written by humans, so are they subject to human error. And any logical errors or false assumptions in the computer program which controls the computer in its analysis of the data will almost certainly create error in the result.

> ". . . [T]*he computer can only process the data as it is told to process the data;* if there is a deficiency in the manner in which the computer is told to process the data, the output will be in error." *Computer-Generated Evidence,* 41 U. CHI. L. REV. at 263 (italics in original).

". . . [I]t usually is not possible to determine whether the computer is properly programmed by examining the answers obtained." *Reeves Instrument Corp.* v. *Beckman Instruments, Inc.,* 444 F.2d 263, 264 (9th Cir.), *cert. denied,* 404 U.S. 951 (1971). In the case of Perma's unvalidated computer simulations* prepared specifically for purposes of litigation, the accuracy of the results could be ascertained only through a thorough examination of the computer program and testing of the logic and assumptions contained therein, for:

> "If the programs are in error, incomplete, not designed to process all of the data that might be generated, or lacking appropriate verification and test procedures, *errors in the output will result." Computer-Generated Evidence,* 41 U. CHI. L. REV. at 269 (italics ours).

Without the foundation of the computer program, the results of Perma's computer simulations, like the program which created them, are nothing but "hypothetical, untested and unproven" Appendix J, p. 154a (dissenting Opinion) exercises in " 'an area of pure physics and delightful math'."

---

* Under generally accepted practice, the results of computer simulations are not relied upon until they have been "validated" or been proven accurate by comparing the results of the simulation against real-world data obtained through prototype testing. Appendix J, pp. 152a-54a (dissenting Opinion). Perma never validated the results of its computer simulations claiming that it could not afford the cost of constructing and testing a prototype incorporating the design changes its experts thought Singer's engineers should have made.

Appendix J, p. 152a (dissenting Opinion) *quoting* the District Judge. Yet the Court of Appeals held that a $7,000,000 judgment may be sustained precisely upon these unfounded results.

We submit that the views expressed by Judge Van Graafeiland in his dissent below are correct:

> "Because the record in this case contains no information about the programming relied upon by plaintiff's [Perma's] experts, neither we [the Court] nor defense counsel have any way of knowing whether it was complete or accurate." Appendix J, p. 161a (dissenting Opinion).
>
> • • •
>
> "Although the admissibility of evidence is ordinarily for the trial court, where, as here, plaintiff's [Perma's] entire case rests upon the accuracy of its computerized calculations, the refusal of the District Judge to subject such computations to the searching light of full adversary examination constitutes prejudicial error which mandates reversal." Appendix J, p. 162a (dissenting Opinion).

B.

The Decision Below Conflicts with Decisions of Other Courts of Appeal Which Hold that Disclosure of the Computer Program is Necessary as a Proper Foundation for Computer-Generated Evidence and for Meaningful Cross-Examination

1. Other Circuits Require Disclosure of Computer Programs as Foundation

It has been widely recognized that while computerized studies and analyses are becoming increasingly valuable sources of evidence in Federal Courts, *Manual for Complex Litigation* § 2.714, "electronically recorded and processed data must be given special treatment far in advance

of trial in order to insure fairness in its use, to permit ascertainment of its reliability, and to avoid suprise and delay." *Manual for Complex Litigation* § 2.70.

Other Courts of Appeal have carefully placed upon proponents of computer-generated evidence the burden of laying a foundation that the evidence which they offer is reliable, accurate and trustworthy. *United States* v. *Liebert*, 519 F.2d 542, 547 (3d Cir.), *cert. denied*, 96 S. Ct. 392 (1975); *United States* v. *Russo*, 480 F.2d 1228, 1241 (6th Cir. 1973), *cert. denied*, 414 U.S. 1157 (1974); *United States* v. *DeGeorgia*, 420 F.2d 889, 893 n.11 (9th Cir. 1969); *United States* v. *DeGeorgia*, 420 F.2d 889, 895-96 (9th Cir. 1969) (Ely, J., concurring).

A foundation of reliability and trustworthiness for computer-generated evidence created for purposes of litigation must be established either by disclosure of the computer program and other input materials, or by giving the adverse party access to the programmed computer. *United States* v. *Liebert*, 519 F.2d at 547; *Pearl Brewing Co.* v. *Jos. Schlitz Brewing Co.*, C.A. No. 71-H-778A at 31 (S.D. Tex., filed May 3, 1976); *Manual for Complex Litigation* § 2.717; *see United States* v. *Russo*, 480 F.2d at 1242-43.

In the case at bar, however, the Court of Appeals held otherwise. Its holding is based upon the astonishing conclusion that "delivery of the actual computer programs would not appear to serve much purpose apart from delivery of the data and scientific formulae employed . . . ." Appendix J, p. 137a.* But plainly, in the absence of knowledge of the contents of the computer program, the Court of Appeals was in no position to know whether disclosure "would . . . serve much purpose" or not. "Because the record in this case contains no information about the programming relied upon by plaintiff's [Perma's] experts, neither

---

* It is precisely this information, "the data and scientific formulae employed", that has always been required as foundation for admission of mathematical, scientific or experimental evidence. *See, e.g., Edwards* v. *Sears, Roebuck & Co.*, 512 F.2d 276, 294 (5th Cir. 1975); *United States* v. *Kelly*, 420 F.2d 26, 28-29 (2d Cir. 1969).

we [the Court] nor defense counsel have any way of knowing whether it was complete or accurate." Appendix J, p. 161a (dissenting Opinion).

The majority Opinion sought to avoid the appearance of categorically holding that disclosure of the computer program was unnecessary. Instead, it stated that Singer "has not shown that it did not have an adequate basis" for cross-examination. Appendix J, p. 137a. But this is sophistry. Without access to the program Singer was plainly in no position to demonstrate that the program was necessary for cross-examination, for establishing inaccuracies or for mounting any other appropriate attack against the computer results. In so holding, the Court of Appeals has created a conflict with decisions of other Courts of Appeal which have held that the proponent of computer-generated evidence bears the burden of laying a proper foundation. *United States* v. *Liebert,* 519 F.2d at 547; *United States* v. *Russo,* 480 F.2d at 1241-43; *United States* v. *DeGeorgia,* 420 F.2d at 893 n.11. Further, by withholding from Singer the computer program, which contained at the very least the "data and scientific formulae employed", the Court of Appeals also deprived Singer of the very information which it needed to sustain the burden now imposed upon it.

2. Disclosure of the Computer Program Is Necessary for Meaningful Cross-Examination

The Fifth, Sixth and Ninth Circuits have found that computer-generated evidence is inherently hearsay and must qualify for exception to the hearsay rule in order to be admitted.* *United States* v. *Fendley,* 522 F.2d 181, 184

*State Courts have reached the same conclusion. *See, e.g., Gassett* v. *State,* 532 S.W.2d 328, 330 (Tex. Crim. App. 1976); *Ed Guth Realty, Inc.* v. *Gingold,* 34 N.Y.2d 440, 451-52, 315 N.E.2d 441, 445-46; 358 N.Y.S.2d 367, 373-74 (1974). Commentators and other authorities are also in agreement that computer-generated evidence is hearsay. *See, e.g.,* Op. Ga. Att'y Gen. (June 12, 1973), in 4 C.L.S.R. 1325; *Manual for Complex Litigation* §§ 3.50, 2.711-.717; *Younger, Computers and the Law of Evidence* (February 25, 1975), in 173 N.Y.L.J. No. 37 at 1; *Computer-Generated Evidence,* 41 U. CHI. L. REV. at 272.

(5th Cir. 1975); *United States* v. *Russo,* 480 F.2d at 1239; *United States* v. *DeGeorgia,* 420 F.2d at 891-92. Perma has neither sought nor received a ruling that the results of its computer simulations prepared specifically for litigation qualify for exception to the hearsay rule. Thus, Perma's computer simulations were inadmissible hearsay statements of an out-of-court declarant, the computer and its program, not subject to cross-examination. Appendix J, p. 160a (dissenting Opinion).

Federal Courts, the Federal Judicial Center and the American Bar Association have recognized that if the out-of-court computer cannot be brought before the court for cross-examination, the hearsay problem may be avoided by bringing the adverse party to the out-of-court computer. This can be accomplished by either giving the adverse party access to the programmed computer, *United States* v. *Liebert,* 519 F.2d at 550; *United States* v. *Russo,* 480 F.2d at 1242-43, or by delivering the program which directed the computer in its analysis of the data to the adverse party. *United States* v. *Dioguardi,* 428 F.2d 1033, 1038 (2d Cir.), *cert. denied,* 400 U.S. 825 (1970); *Pearl Brewing Co.* v. *Jos. Schlitz Brewing Co.,* Slip Op. at 31; *Manual for Complex Litigation* §§ 2.717, 3.50; ABA Sub-Committee on Data Processing, *Principles of Introduction of Machine Prepared Studies* (1964), in C.L.S.R. § 5-4.2.

Both alternatives are means to the same end—the avoidance of unreliable hearsay evidence by providing the adverse party with the information necessary to conduct a meaningful cross-examination and an opportunity to otherwise impeach or rebut the evidence offered against him. Either access to the programmed computer or delivery of the computer program is a "condition of admissibility", *Manual for Complex Litigation* § 2.717, for "[w]ithin this area, the protection against unreliable evidence afforded by the traditional orthodox hearsay rule can be supplied only by full disclosure [of the raw data, the

method and program employed] to the adverse party . . . ." *Manual for Complex Litigation* § 3.50.

The decision of the Court of Appeals is based upon a finding, on a record which does not contain the computer program, that Singer had not demonstrated that it could not meaningfully cross-examine Perma's expert witnesses. The decision is in conflict with other Federal Courts which have found that disclosure of the information contained in computer programs is necessary to cross-examination. The Court of Appeals for the Third Circuit found that granting access to a programmed computer:

> ". . . should provide [the adverse party] with the information necessary to cross-examine the computer testimony confronting him by analyzing the reliability of the computer system in theory and checking the accuracy of the system in fact. Moreover, the alternatives should provide information focusing directly on the credibility of the computer testimony. . . ." *United States* v. *Liebert,* 519 F.2d at 550.

Similarly, timely disclosure of a computer program has been found to be necessary to permit an adverse party "to understand fully this information before being able to commence proper analysis and subsequent preparation for thorough cross-examination." *Pearl Brewing Co.* v. *Jos. Schlitz Brewing Co.,* Slip Op. at 31; *Manual for Complex Litigation* §§ 2.717, 3.50.

Without disclosure of the computer program containing the "logic" and assumptions as well as the "data and scientific formulae employed":

> "The inherent vice of all hearsay evidence so becomes apparent, for, at the very least, defendant had no opportunity to cross-examine [the proponent] and ascertain from him the basis of his computations; to test the validity of said basis, including whatever assumptions he made, if any, and what he did regarding the information available to him; to ascertain his

> method of computation and to test its validity, etc. For this reason we hold that it was prejudicial error to admit the evidence at the trial." *Berguido* v. *Eastern Air Lines, Inc.,* 317 F.2d 628, 632 (3d Cir.), *cert. denied,* 375 U.S. 895 (1963).

CONCLUSION

Questions relating to the admissibility of computer-generated evidence are certain to occur with increasing frequency in patent, criminal, regulatory, antitrust and other areas of federal subject matter jurisdiction. It is submitted that the dissent in the Court of Appeals is correct in urging that this is the time at which "appropriate standards be set for the introduction of computerized evidence." Appendix J. p. 158a (dissenting Opinion). This Petition affords this Court the opportunity to do so and at the same time remove a conflict that has arisen among the Circuits. For these, and for all of the other reasons set forth herein, certiorari should be granted.

Respectfully submitted,

MERRELL E. CLARK, JR.
WINTHROP, STIMSON, PUTNAM & ROBERTS
40 Wall Street
New York, New York 10005
Attorney for Petitioner

Return to BNA

76-509

Supreme Court, U. S.
FILED
OCT 12 1976
MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

OCTOBER TERM, 1976

No.

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

APPENDIX TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MERRELL E. CLARK, JR.
WINTHROP, STIMSON, PUTNAM & ROBERTS
40 Wall Street
New York, New York 10005
Attorney for Petitioner

INDEX

APPENDICES		PAGE
A.	Opinion of Bryan, J., dated March 29, 1968	1a
B.	Order and Judgment of Bryan, J., dated August 11, 1968	15a
C.	Opinion, dated April 25, 1969, of the United States Court of Appeals for the Second Circuit (410 F.2d 572 (2d Cir. 1969))	18a
D.	Order, dated April 25, 1969, of the United States Court of Appeals for the Second Circuit	32a
E.	Opinion and Order of MacMahon, J., dated January 27, 1970 (308 F. Supp. 743 (S.D.N.Y. 1970))	34a
F.	Opinion and Order of Metzner, J., dated May 14, 1970	47a
G.	Opinion of Duffy, J., with Appendices "A" and "B", dated April 11, 1975 (402 F. Supp. 881 (S.D.N.Y. 1975))	51a
H.	Judgment after Trial, dated May 29, 1975 and Entered on June 3, 1975	126a
I.	Amended Judgment after Trial, dated June 13, 1975 and Entered on June 16, 1975	128a
J.	Opinion, dated July 1, 1976, of the United States Court of Appeals for the Second Circuit	130a
K.	Denial of Petition for Rehearing or Rehearing In Banc, dated September 2, 1976	166a

APPENDIX A

Opinion

United States District Court

SOUTHERN DISTRICT OF NEW YORK

---

66 Civ. 665

PERMA RESEARCH & DEVELOPMENT COMPANY,
Plaintiff,

against

THE SINGER COMPANY,
Defendant.

---

66 Civ. 666

PERMA RESEARCH & DEVELOPMENT COMPANY,
Plaintiff,

against

THE SINGER COMPANY,
Defendant.

OPINION

BRYAN, District Judge:

These are companion actions, the first (66 Civil 665, referred to as Action No. 1), seeking damages for alleged breach of contract, and the second (66 Civil 666, referred to as Action No. 2) seeking injunctive relief.

Appendix A

The complaint in Action No. 1 is in two counts.

The first alleges breach of a contract dated June 18, 1964, between plaintiff, Perma Research & Development Company (Perma), and defendant, The Singer Company (Singer), whereby Singer agreed to manufacture and deliver to Perma's customers an apparatus known as "Perma Anti-skid Control," on which Perma held patents, for installation on automobiles. It is alleged that units of this device manufactured under the contract were defective due to Singer's failure to exercise adequate quality controls in the assembly and testing of the product as required by the contract and that some 500 of these defective units were delivered to Perma's distributors over its objection. Perma alleges that as a result of this breach it was unable to fulfill its contractual obligations with its distributors and suffered substantial damages.

The second count in Action No. 1 seeks to set aside a second agreement between the parties dated December 21, 1964, which, among other things, terminated and cancelled the earlier June 18, 1964, agreement. The second count alleges that the December agreement was procured by fraud and misrepresentation, that it was entered into without consideration, and that it was illusory and therefore void. Judgment is sought (1) declaring that the December agreement is null and void; (2) for specific performance of the June agreement; and (3) for damages of $41,000,000.

The final paragraph of the complaint seeks additional relief by stating cryptically, "And in the alternative, if it be determined that the contract of December 21, 1964 be valid, Plaintiff demands judgment upon this contract for breach and non-performance thereunder in the amount of 41 million dollars."

Appendix A

The answer of Singer generally denies the allegations of the complaint and interposes a counterclaim for alleged false and fraudulent representations by Perma which induced it to spend time and money on the skid control device to its damage in the sum of $4,000,000.

The complaint in Action No. 2 seeks an injunction against the further shipping and delivery of units of the Perma Anti-Skid Control apparatus by Singer. The relief sought is predicated on the June 18, 1964 agreement under which Singer manufactured these units and ignores the December 21, 1964 agreement. The answer generally denies the allegations of the complaint.

Defendant, Singer, has moved pursuant to Rule 56, F.R.C.P. for summary judgment dismissing the complaints in both actions and for summary judgment on its counterclaim in Action No. 1. Plaintiff, Perma, cross-moved for summary judgment on the second count in Action No. 1. Perma also has moved for leave to file an amended reply to the counterclaim in Action No. 1.

The factual background may be briefly summarized as follows:

The Perma Anti-Skid Control device, designed to prevent an automobile from skidding, was invented by Perrino, President of Perma. Perma had been working for some years and had spent substantial sums to perfect and market it. The device is a complicated mechanism with over 100 separate parts.

In June 1964, after Perma had sold a number of the devices which it had assembled, it entered into a contract with Singer under which Singer undertook to assemble the product from an inventory of component parts purchased from Perma's former suppliers. Singer agreed to exercise diligent quality control to determine that the components complied with specifications.

Appendix A

During six months of operation under this contract a number of defects in both quality and design were discovered. Various changes in design were made after consultation between Perma and Singer. During this period some 500 units were shipped by Singer to Perma's distributor in Ohio. A number of these units were defective in various respects. Perma now claims that these defects were due to Singer's failure to exercise adequate quality control over the component parts. Singer, on the other hand, maintains that its controls were efficient and adequate and that the defects were due to faults of design in the component parts which Singer or Perma had discovered and which had to be replaced or corrected.

In any event, in December 1964 a new contract was entered into by the parties which cancelled the June contract. Under the December contract the patents for the device were assigned to Singer by Perma and Singer undertook to manufacture and market the product, paying royalties to Perma.

After substantial expenditures under this agreement and a number of tests and experiments, Singer claims that it concluded that the device was not fail-safe—that is to say, was without a feature which would restore the standard braking system of the automobile in the event of a mechanical failure of the device—and that the device was therefore unmarketable. A retrieval program was then instituted to get back all devices delivered to distributors or sold to the public by Singer and Singer advised Perma it would deliver no more devices and component parts until the device was made fail-safe.

After controversy had developed between the parties over the decision reached by Singer, Perma commenced the two actions at bar.

Appendix A

Singer's motion for summary judgment addressed to the complaint in Action No. 1 is predicated on two principal grounds.

The first is that there was in fact no breach of the June 18, 1964 agreement as alleged. The second is that the June 18, 1964 agreement and all obligations thereunder were fully and finally terminated by the agreement of December 21, 1964, and that there is no basis in fact or law for setting aside the latter agreement which effectively bars suit upon the first. However, Singer does not address itself to Perma's claim of breach of the December agreement set forth in the final paragraph of the complaint.

Without suggesting that Singer's first ground is without merit, it is unnecessary to discuss that ground, since the second, insofar as it goes to the validity of the December 1964 agreement is dispositive of the motions for summary judgment addressed to Action No. 2 and to Counts 1 and 2 of Action No. 1.

By the December 21, 1964 agreement all patent rights to the Perma anti-skid control device were transferred to Singer and Singer agreed to manufacture and market the device and to pay royalties to Perma. There is no doubt that the December agreement effectively terminated the June agreement. It expressly provided that the June agreement "should be deemed null and void and of no force or effect," and that "all rights and obligations of the parties thereunder were terminated" with the exception of specified accrued items not relevant here.

Thus, any rights which Perma might have had to sue on the June agreement are effectively barred by the December agreement as long as it remains in force and effect.[1] It is

1. See 5A Corbin, Contracts § 1236 (1964).

plainly for this reason that Perma in the second count of its complaint seeks a declaratory judgment setting aside the December agreement and declaring it null and void. Unless Perma can succeed in setting aside the December agreement it has no claim for relief on the first count for breach of the June agreement.

In the second count Perma alleges three grounds for setting aside the December agreement: (1) that there was no consideration for the agreement on Singer's part; (2) that the agreement was illusory and therefore void; and (3) that Perma was induced to enter into the agreement by fraud and misrepresentation on the part of Singer.

1. Alleged Lack of Consideration

The December agreement expressly provides that it is to be governed by New York Law. It was an agreement in writing to discharge the June agreement signed by Perma, the party against whom the discharge is sought to be enforced. Under New York G.O.L. Section 5-1103, such a contract "shall not be invalid for lack of consideration." Thus, the June agreement was effectively terminated whether or not there was consideration for the December agreement.

But quite apart from this there was ample consideration for the December agreement.

Singer assumed loans and obligations of Perma in the amount of $209,000 in return for which Perma gave Singer a five year non-interest bearing promissory note. A check for $24,000 was delivered to Perma at the closing. Singer assumed Perma's current liabilities to third parties in the amount of $85,000 and also Perma's four principal distributorship contracts. Finally, Singer was required to pay

Perma royalties. All this is clear from the face of the contract and was admitted by Perrino, Perma's President, on deposition. Indeed, it could not well have been denied.

There is no factual or legal basis for the contention that the December 1964 contract lacked consideration.

2. Alleged Illusory Nature of the December Contract.

Perma's theory, as stated in the complaint, is that the agreement is illusory because "Singer was not bound to perform any covenants or agreements and retained complete discretion as to manufacturing and marketing." However, on his deposition Perrino admitted that Singer had performed a number of the covenants and agreements contained in the December contract.

In any event, regardless of specific promises in the agreement, there can be no doubt that there was an obligation on Singer's part under the agreement, to use its best efforts to manufacture and market the product. Sea Wood v. Lucy, Lady Duff Gordon, 222 N.Y. 88 (1917). See also Bruce & Co., Inc. v. Simpson & Co., Inc., 40 Misc. 2d 501, 504 (S. Ct. 1963); Franklin Research & Development Corp. v. Swift Electrical Supply Co., 340 F.2d 439, 443, n. 3 (2d Cir. 1964). Moreover, it appears from the papers before me that Singer did in fact spend substantial time and money in manufacturing, testing, research and marketing of the device.

Finally, Paragraph 10 of the contract provides for a "reversion right" to Perma under which Perma could recover the rights to the device if Singer did not spend more than $100,000 per year in marketing it. Perrino

claimed that this reversion right was still in existence at the time when his deposition was taken. There is no legal or factual basis for Perma's second contention either.

3. Fraud in the Inducement.

The only other ground on which Perma relies is that the December contract was induced by fraud and misrepresentation. This is categorically denied by Singer.

Perma has not only failed to show that there was any fraud or misrepresentation but in effect admits that there was none.

Perma alleges in the second count in Action No. 1 that the December agreement "was procured by fraud and misrepresentation on the part of" Singer "as to its intentions and ability to market the product." Perrino, the President of Perma, on his deposition taken by Singer, was unable to point to any evidence to support that charge.

When asked what the basis was for the charge Perrino replied that he had been told that more time and money would be spent on engineering and marketing, that there was "less time and money spent after the signing of the December agreement than there was previously,"[2] that he did not know how much time and money had been spent under either agreement, but that "everything else pointed to the fact that they did not intend to do what they said they were going to do."[3]

Further, Perrino said that "although they (Singer) said they would market the product, they did not. They, in fact, turned this over to an independent organization which was

2. Deposition of Perrino, p. 420.
3. Deposition of Perrino, p. 420.

previous [sic] our own distributor, where he stated himself that he did not have the assets to market the product nationally."[4] Apart from the hearsay in this statement it may be noted that under the December agreement Singer had the right to determine the method of manufacturing, exploiting and marketing the product "in its absolute discretion."

Even if Perrino's claims were taken as true this would not constitute fraud in the inducement under New York law. Were there an intention not to perform terms of the December agreement on Singer's part, followed by non-performance, this would not give rise to an action for fraud but to an action for damages for breach of the agreement. As was said in Briefstein v. Rotondo Co., 8 A.D.2d 349 at 351, 187 N.Y.S.2d 866, at 868 (1st Dept., 1959):

> "To say that a contracting party intends when he enters into an agreement not to be bound by it is not to state 'fraud' in an actionable area, but to state a willingness to risk paying damages for breach of contract.
>
> "If a man makes a contract intending to breach it he would expect to pay the price which such a course incurs by the usual rules of law under which contracts are afforded judicial enforcement. An intention not to perform does not bring on heavier damages than actual non-performance. The policy which runs through the fabric of the law of contracts is to bind a party by what he agrees to do whether or not he intends to do what he agrees.

4. Id. at 420-21.

> "Implicit in the policy sanctioning the formalization of contractual undertakings is precaution against an existing intention not to be bound by the agreement as well as a future change of mind about being bound by it. Actionable relief hangs on breach; and under the facts here pleaded, relief does not lie for fraud resting on an intention not to perform."

See also Leventhal v. Martin, 25 A.D.2d 508, 266 N.Y.S.2d 774 (1st Dept. 1966).

The facts in *Briefstein* were quite different from those in such cases as Sabo v. Delman, 3 N.Y.2d 155, 164 N.Y.S.2d 714 (1957), where it was said that a promise "actually made with a preconceived and undisclosed intention of not performing it • • • constitutes a misrepresentation of a material existing fact upon which an action for rescission may be predicated." Id. at 160, 165 N.Y.S.2d at 716. *Sabo v. Delman* was concerned with fraudulent promises as to collateral matters not included within and outside the terms of the contract which were given to induce the party seeking rescission to enter into the contract. In *Briefstein*, on the other hand, plaintiff, as the plaintiff here, simply claimed that defendant never intended to carry out the promises which he had made under the actual terms of the contract itself.[5]

Moreover, Perrino's testimony on deposition demonstrates there is no evidence of an intention by Singer not to perform the contract. When Perrino was asked how he

5. It may be noted that *Briefstein* does not conform to either the Restatement of Contracts or the Restatement of Torts. See Restatement, Torts, § 530 Comment b; Restatement, Contracts, § 473.

knew "that Singer had no intention to market the product" at the time it negotiated and signed the contract, he replied "There is no way of me knowing exactly what their intention was at the time they said it, except that they promised certain things when everything else points to the fact that they did not intend to do what they said they were going to do."[6] Perrino was then asked "What points to that fact that you allege?"[7] His response resolved itself into nothing more than claims of non-performance by Singer.[8]

A mere showing of non-performance of a promise without more is insufficient to support a claim of fraud in the inducement. See Restatement, Torts, § 530 Comment c; Restatement, Contracts § 473 Comment c; Adams v. Clark, 239 N.Y. 403 at 410 (1925). See also Prosser, Torts, § 90 at p. 565 (2d ed. 1955). Nothing more than that was shown here.

The only affidavit in opposition to Singer's motion for summary judgment is that of Perrino in support of Perma's cross-motion for the same relief on Count 2. It wholly fails to present any evidence of fraud in the inducement of the December contract. The conversations which Perrino claims to have had with various persons connected with Singer do not support the claim that there was no intention on Singer's part to perform when it entered into the December contract, much less establish any fraudulent misrepresentations. Perrino's affidavit is insufficient to raise any material issues of fact. Nor does it cast any doubt on his admission at his deposition that Singer and

6. Deposition of Perrino, p. 420.
7. Ibid.
8. Id. at 420-22.

Perma were engaged in joint efforts looking toward the perfection and marketing of the device for some six months after the December agreement was entered into, and up to the time that Singer lost confidence in the device.

In any event, it appears that there was a substantial measure of performance of the December agreement by Singer. The real issue between the parties is over the adequacy of such performance under the terms of the contract. It is plain that this controversy is not as to fraud in the inducement, but as to whether or not the December contract was breached.

There are no material issues of fact to be tried with respect to the claim in the second count in Action No. 1 for rescission of the December agreement and Singer is entitled to summary judgment on that claim. Perma's cross-motion for summary judgment in the second count in Action No. 1 is wholly without merit and must be denied.

The first count based on alleged breach of the June, 1964 contract therefore automatically falls since any such claim is barred by the subsisting December 1964 agreement and Singer is entitled to summary judgment on the first count of Action No. 1 also. The same result follows with respect to Action No. 2 for injunctive relief based solely upon the June agreement. Singer's motion for summary judgment dismissing the complaint in Action No. 2 will be granted.

There remains the claim asserted in Count 2 of Action No. 1 for breach of the December 1964 contract as distinguished from the claim for rescission. It will be recalled that this claim is alleged in the following language:

> "And in the alternative, if it be determined that the contract of December 21, 1964 be valid, plaintiff demands judgment upon this contract for breach of non-performance thereunder in the amount of 41 million dollars."

This can scarcely be said to be an artistic way to allege a substantial claim for breach of contract. However, if the quoted paragraph be read in conjunction with other allegations of Count 2, it is barely sufficient to withstand a motion to dismiss and must be held to state a viable claim for relief for breach of contract. As Professor Moore has stated:

> "• • • The courts have ruled again and again that a motion to dismiss for failure to state a claim should not be granted unless it appears to a certainty that plaintiff would be entitled to no relief under any state of facts which may be proved in support of his claim." 2A, Moore's Federal Practice, ¶ 8.13 at page 1705-07.

See also DioGuardi v. Durning, 139 F.2d 774 (2d Cir. 1944).

Singer has not addressed itself directly to the claim for breach of the December agreement nor has Perma. In the present posture of this action and on the papers before me Singer has not demonstrated that there are no material issues of fact as to this claim which require trial and summary judgment on the claim must therefore be denied.

Finally, there are Singer's motion for summary judgment on its counterclaim in Action No. 1, and Perma's motion for leave to serve an amended reply to that counterclaim.

Singer's counterclaim alleges a series of fraudulent acts and representations on the part of Perma which induced Singer "to spend time and money on the manufacture, dis-

tribution and sale, testing, recalling and retrieving" of the anti-skid device to its damage in the sum of $4,000,000. The original reply to the counterclaim was inartistically drawn, to say the least, and it can be argued with some persuasiveness that it is not an effective denial sufficient to place in issue the material allegations of the counterclaim. However, Perma has moved for leave to serve an amended reply which places in issue such material allegations.

Singer urges that service of the proposed amended reply should not be permitted, not only because it is untimely but because a number of its allegations are inconsistent with the record thus far made on the depositions taken by the parties. However, in view of the liberal policy favoring amendments, I do not think that Perma should be foreclosed from filing its amended reply and leave is granted to do so.

In the light of the issues raised by the amended reply it cannot be said on the record before me that there are no material issues of fact to be tried with respect either to Perma's liability on the counterclaim or to the important question of Singer's damages. Singer's motion for summary judgment on its counterclaim will therefore be denied.

Settle order on notice embodying the decisions reached in this opinion.

Dated: New York, N. Y.
March 9, 1968

s/ Frederick V. P. Bryan
United States District Judge

APPENDIX B

Order and Entry of Judgment

UNITED STATES DISTRICT COURT

Southern District of New York

---

66 Civ. 665

Perma Research & Development Company,
Plaintiff,

against

The Singer Company,
Defendant.

The following motions having been made,

1. By the defendant, The Singer Company (hereinafter "Singer") for summary judgment, pursuant to Rule 56 of the Federal Rules of Civil Procedure, dismissing the Complaint of plaintiff, Perma Research & Development Company (hereinafter "Perma"),

2. By Singer for summary judgment on its Counterclaim against Perma, pursuant to Rule 56 of the Federal Rules of Civil Procedure,

3. By Perma for summary judgment on the Second Count of the Complaint, pursuant to Rule 56 of the Federal Rules of Civil Procedure,

Appendix B

4. By Perma for leave to file an amended reply to Singer's Counterclaim, pursuant to Rule 15 of the Federal Rules of Civil Procedure, and

The Court having granted Perma's motion for leave to file an amended reply to Singer's counterclaim, and

The Court having considered the pleadings in this action, the affidavits, memoranda and exhibits in support of and in opposition to said motions, and having heard counsel for the respective parties and having had due deliberation, and having rendered its decision on March 28 and filed its opinion on April 1, 1968, and

Motions for reargument having been made,

1. By Singer on April 11, 1968, and

2. By Perma on April 23, 1968, and

The Court having granted both of said motions for reargument and on reargument having adhered to its decision dated March 28 and filed April 1, 1968, by memorandum of the Court filed on July 15, 1968, it is

Ordered that Singer's motion for summary judgment on the First Count of the Complaint be and the same hereby is granted; and it is further

Ordered that Singer's motion for summary judgment on the Second Count of the Complaint be and the same hereby is granted insofar as said Court seeks rescission of the December 21, 1964 agreement between Perma and Singer; and it is further

Appendix B

Ordered that Singer's motion for summary judgment on the Second Count of the Complaint be and the same hereby is denied insofar as said Count seeks damages for the alleged breach of the December 21, 1964 agreement between Perma and Singer; and it is further

Ordered that Perma's motion for summary judgment on the Second Count of the Complaint be and the same hereby is denied; and it is further

Ordered that Singer's motion for summary judgment on its Counterclaim against Perma be and the same hereby is denied; and it is further

Ordered that the Court, expressly determining under Rule 54(b) of the Federal Rules of Civil Procedure that there is no just reason for delay, hereby expressly directs that a final judgment be entered: (1) dismissing with prejudice the First Count of the Complaint, and (2) dismissing with prejudice the Second Count of the Complaint insofar as said Count seeks rescission of the December 21, 1964 agreement between Perma and Singer; and said judgment is hereby entered.

Dated: New York, New York
August 11, 1968

s/ Frederick V. P. Bryan
United States District Judge

Judgment Entered:
Dated: New York, New York
August 13, 1968

s/ John J. Olear, Jr.
Clerk

APPENDIX C

PERMA RESEARCH AND DEVELOPMENT COMPANY, *Appellant,*

v.

THE SINGER COMPANY, *Appellee.*

Nos. 407 and 408, Dockets 32716 and 32754.

UNITED STATES COURT OF APPEALS

Second Circuit.

Argued Jan. 22, 1969.

Decided April 25, 1969.

Before SMITH and HAYS, Circuit Judges, and HENDERSON, District Judge.*

J. JOSEPH SMITH, Circuit Judge:

The plaintiff Perma Research & Development Company ("Perma"), brought this action for breach of contract in the United States District Court for the Southern District of New York, alleging that substantial numbers of an automobile anti-skid braking device assembled by the defendant, The Singer Company ("Singer"), were "defective due to inadequate quality control." Judge Bryan granted partial summary judgment in favor of Singer in the action for breach of contract, and dismissed an injunction action brought the same day to enjoin Singer from shipping any of the units thus assembled.[1] For the reasons stated below, we agree with the disposition of these cases, and affirm.

* Chief Judge of the Western District of New York, sitting by designation.

1. The complaints in both actions alleged that Singer had shipped 500 defective units to an Ohio distributor over the express objections of Perma.

Appendix C

I.

In June, 1964, Perma and Singer entered into a contract (the "June contract") for the manufacture of the "Perma Anti-Skid Device." Invented by Frank A. Perrino, the president of Perma, the product was said to have "a "fail-safe [sic] feature which will automatically revert to the standard braking system in case of failure."[2] By the terms of the June contract, the parties agreed that Singer would assemble the product in accordance with specifications and blueprints provided by Perma, and that Singer would use "diligent quality control in the production, assembly, testing and packaging" of the product.

As a condition precedent to the June contract, Singer purchased an inventory of specified component parts at a cost of $1,000,000.[3] During the first few months of attempted production, Singer complained that a large number of component parts were defective in various ways, and depending on the parts involved, Perma either arranged for their correction, waived the deviations, or ordered replacements. Singer also suggested modifications in the basic design of the product, and Perma responded by making some twelve design changes.[4]

In December, 1964, the parties entered into a second contract (the "December contract") which terminated the

2. The quoted words are from the sound track of a promotional film made by Perma sometime prior to the June contract.

3. The component parts were purchased from two companies which had previously manufactured these same parts for Perma.

4. Under paragraph 9 of the June contract, Singer was forbidden to make any changes in the basic design of the invention without the written approval of at least two officers of Perma.

June contract[5] and assigned all patent rights on the product to Singer. In return Singer agreed to manufacture and market the product and pay royalties to Perma.[6] In addition Singer paid $24,000 in cash, gave Perma an interest-free loan of $209,000,[7] and assumed contractual obligations of Perma in the amount of $85,000. Singer also promised to pay $9,800 a month under a six-month technical services contract with Perma.

In August, 1965, Singer concluded that the product could not be made "fail-safe," and commenced a retrieval program to get back those units already on the market. At the same time Singer advised Perma that it was abandoning the project until the "fail-safe" problem could be resolved.

Perma then commenced this action for breach of the June contract. While admitting that the December contract purported to terminate the June contract, Perma alleged that Singer entered into the December contract with an intention not to perform, and asked the court to set aside the December contract on account of fraud. In the alternative, Perma asked for damages for breach of the December contract. Singer, in turn, counterclaimed for $4,000,000 on the theory that Perma had fraudulently misrepresented the "fail-safe" features of the product.

5. Paragraph 7 of the December contract provided that the June contract "shall be deemed null and void and of no force and effect," and further provided that "all rights and obligations of the parties thereunder" shall be terminated with the exception of certain accrued items not relevant here.

6. In the event Singer did not spend at least $100,000 annually on "marketing, promoting and advertising" the product, the December contract gave Perma a "reversion right" on the payment of $50,000.

7. This was done under an arrangement whereby Singer assumed $209,000 in claims against Perma in return for which Perma gave Singer a promissory note in that amount.

[1-3] On Singer's motion for summary judgment, Judge Bryan dismissed the action to set aside the December contract on account of fraud.[8] He held that Perma failed to produce any evidence showing a fraudulent intent on the part of Singer, and further held that a fraudulent intent, even if proved, would not give rise to an action for rescission under New York law.[9] Having concluded that there was no actionable fraud, Judge Bryan dismissed the claim for breach of the June contract on the ground that any such claim was barred by the valid December contract. This left the claim for breach of the December contract, as well as the counterclaim by Singer, and as to these claims

8. Perma also alleged that the December contract was void on account of lack of consideration and illusoriness. In light of the statements made in the Perrino deposition, the mind boggles at the suggestion that the December contract was not supported by adequate consideration. Perrino admitted, for example, that in consideration for the December contract Singer paid $24,000 in cash, assumed an obligation of a distributor for $40,000, and paid certain of Perma's debts or asssumed its liabilities to the sum of $209,967. He also admitted that Singer and Perma had continued to work together for at least six months under the technical services contract, and that Perma was paid at the monthly rate of $9,800. Equally frivolous is the argument based on illusoriness, since Singer was obligated to use its best efforts to manufacture and market the product *even if the agreement did not expressly say so.* "A promise may be lacking, and yet the whole writing may be 'instinct with an obligation' imperfectly expressed." Wood v. Lucy, Lady Duff-Gordon, 222 N.Y. 88, 91, 118 N.E. 214 (1917) (Cardoza, J.). Moreover, it appears from the depositions that Singer did in fact spend substantial time and money trying to perfect and market the product.

9. The December contract expressly provided it should be construed in accordance with New York law.

Judge Bryan denied summary judgment. He then certified that there was "no just reason for delay," and entered final judgment on the dismissed claims.[10]

On appeal Perma insists that a contractual promise made without any intention of performing it is fraudulent, and that Judge Bryan erred in holding that a contract induced

10. Since the injunction action raises the question of whether the December contract was fraudulently induced, and since dismissal of that action is unquestionably a "final decision" within the meaning of 28 U.S.C. § 1291, we need not decide whether the dismissed claims in the breach of contract action are properly appealable under Rule 54(b), Fed.R.Civ.P. The basic issue in both actions is whether the June contract was effectively terminated by the December contract, and under the circumstances, we think that a decision adjudicating the fraud issue in the injunction action would be *res judicata* in the breach of contract action. See generally 1B Moore, Federal Practice ¶ 0.405 [1] (2d ed. 1965).

By its very words Rule 54(b) is applicable only "[w]hen more than one claim for relief is presented," and thus the partial adjudication of a single claim is not appealable, regardless of whether there is a Rule 54(b) certificate. McNellis v. Merchants National Bank & Trust Company of Syracuse, 385 F.2d 916 (2d Cir. 1967). The alternative claims for breach of contract do not present multiple claims within the meaning of Rule 54(b), since Perma would be limited at best to a single recovery. See Campbell v. Westmoreland Farm, Inc., 403 F.2d 939, 941 (2d Cir. 1968). "The word 'claim' in Rule 54(b) refers to a set of facts giving rise to legal rights in the claimant, not to legal theories of recovery based upon those facts." CMAX, Inc. v. Drewry Photocolor Corp., 295 F.2d 695, 697 (9th Cir. 1961). As to whether the claim-counterclaim situation presents multiple claims, compare Omark Industries, Inc. v. Lubanko Tool Co., Inc., 266 F.2d 540 (2d Cir. 1959) ("multiple claims" presented when the plaintiff sued for goods sold and delivered and defendant counterclaimed for breach of franchise agreement), with Seaboard Machinery Corp. of Delaware v. Seaboard Machinery Corp. of New Jersey, 267 F.2d 178 (2d Cir. 1959) ("single claim" presented where all counts of complaint and counterclaim arose out of a single contract). Compare also Bendix Aviation Corp. v. Glass, 195 F. 2d 267, 38 A.L. R.2d 356 (3d Cir. 1952) (*en banc*) ("multiple claims" presented where claims for specific performance and counterclaim for damages arose out of same transaction), with Carter v. Croswell, 323 F.2d 696 (5th Cir. 1963) ("single claim" presented where claim and counterclaim arose out of same automobile accident).

by fraudulent promises could not be rescinded under New York law. In addition, Perma urges that there was a triable issue of fact on the fraud claim, and that summary judgment was improperly granted. We need not reach the summary judgment question, of course, if Judge Bryan was correct in holding that proof of an intention not to perform would not give rise to an action for rescission under New York law.

II.

[4] Since the New York Court of Appeals has specifically held that "a contractual promise made with the undisclosed intention not to perform it constitutes fraud," Sabo v. Delman, 3 N.Y.2d 155, 162, 164 N.Y.S.2d 714, 718, 143 N.E.2d 906, 909 (1957), we think that Judge Bryan erred in dismissing the fraud claim on the theory that it would not support an action for rescission. "[I]f a promise was actually made with a preconceived and undisclosed intention of not performing it, it constitutes a misrepresentation of 'a material existing fact' upon which an action for rescission may be predicated." Id. at 160, 164 N.Y.S.2d at 716, 143 N.E.2d at 908.

In dismissing the fraud claim, Judge Bryan quoted approvingly from Briefstein v. P. J. Rotondo Co., 8 A.D.2d 349, 351, 187 N.Y.S.2d 866, 868 (1st Dept. 1959), where it was said: "To say that a contracting party intends when he enters into an agreement not to be bound by it is not to state 'fraud' in an actionable area, but to state a willingness to risk paying damages for breach of contract." Judge Bryan distinguished *Sabo* on the ground that the fraud there resulted from misrepresentations as to "collateral matters" which had not been reduced to writing.

Since Singer did not make any promises "outside the terms of the contract," Judge Bryan concluded that *Briefstein,* and not *Sabo,* was controlling. We disagree.

While the contract in *Sabo* may have been fraudulently induced by "collateral" promises not reduced to writing, there is nothing in the *Sabo* opinion which suggests that the result would have been any different if the fraudulent promises had been included within the actual terms of the contract itself. As a matter of plain logic, we fail to see why there is any less fraud in the inducement if the false promises are made a part of the contract itself, and indeed, *Sabo* speaks of *contractual* rather than *collateral* promises. Since *Briefstein* was not decided by the highest appellate court in New York, and since there is good reason to think that the New York Court of Appeals would not follow the somewhat aberrational holding of that case,[11] we think that *Sabo* is controlling in this diversity action, see Commissioner of Internal Revenue v. Bosch's Estate, 387 U.S. 456, 87 S.Ct. 1776, 18 L.Ed.2d 886 (1967), and hold that Judge Bryan erred in dismissing the fraud claim on the basis of *Briefstein.*

III.

Having concluded that the fraud alleged here, if true, would support an action for rescission, we must decide whether Judge Bryan was correct in holding that there

11. The *Briefstein* rationale is not supported, for example, by either the Restatement of Contracts or the Restatement of Torts. See Restatement, Contracts § 473: "A contractual promise made with the undisclosed intention of not performing it is fraud." See also Restatement, Torts § 530, comment c, which provides in pertinent part: "One who fraudulently misrepresents himself as intending to perform an agreement which he makes with the recipient of the misrepresentation, is subject to liability * * * whether the agreement is enforceable or unenforceable as a contract."

were no triable issues of fact on the fraud claim. We agree that the fraud claim is without any substance, and affirm on this ground.

[5, 6] The only allegation of fraud in the entire Perma complaint is the statement that the December contract "was procured by fraud and misrepresentations on the part of [Singer] and its agents as to its intentions and ability to market said product." By itself this allegation is plainly insufficient to state a claim for fraud under Rule 9(b), Fed. R.Civ.P.[12] Nor does the deposition of Perrino, the president of Perma, provide any factual basis for the fraud alleged in the complaint. Except for repeated references to Singer's unsatisfactory performance under the December contract, Perrino was unable to point to any evidence of an intention not to perform, and as Judge Bryan properly observed, actionable fraud depends on more than a showing of non-performance. See Restatement, Torts § 530, comment c; Restatement, Contracts § 470, comment e; Adams v. Clark, 239 N.Y. 403, 410, 146 N.E. 642 (1925). Moreover, it appears from the deposition that there was substantial performance under the December contract, at least until Singer concluded that the product was not "fail-safe" and hence unmarketable. Indeed, Perrino admitted in his deposition that the parties were engaged in joint efforts to solve the "fail-safe" problem as late as six months after the December contract was negotiated.

12. Rule 9(b) provides that the circumstances constituting the alleged fraud must be stated with particularity. Failure to comply with Rule 9(b) will render the pleadings vulnerable to a motion to dismiss for failure to state a claim, see, for example, Robison v. Caster, 356 F.2d 924 (7th Cir. 1966), or a motion for a more definite statement. See, for example, Trussell v. United Underwriters, Ltd., 228 F.Supp. 757, 774 (D.Col.1964); Lynn v. Valentine, 19 F.R.D. 250 (S.D.N.Y., 1956).

Appendix C

The only difficult question is whether any of the statements made by Perrino in an affidavit opposing summary judgment are sufficient to raise material issues of fact. In that affidavit Perrino said:

> At the time I entered into the contract of December 21, 1964 on behalf of Perma with Singer, Perma was in desperate financial straits because of the delays in deliveries of the product under the June contract. *Mr. Kloby of Singer told me that Singer was waiting for Perma to become insolvent so that they could take over the rights to manufacture and market the product under the most satisfactory conditions or get out of their obligations to Perma entirely.* Mr. Peacock, of counsel for Singer, told me, at the time of the negotiations for the December contract, in the presence of Mr. Kloby, that Singer had every intention to manufacture and market the product and pay royalties to Perma. The Singer name was of great importance to Perma, *but I have since learned that the same Mr. Peacock had already drawn a draft agreement to sell the marketing rights to Monitor Enterprises of Long Island, New York, under an agreement whereby Perma would receive no royalties.* Also, subsequent to the signing of the December contract *I had a conversation with Mr. Person of Singer at the Biltmore Hotel in Providence, Rhode Island, at which time Mr. Person told me that Singer never had any intention of performing the December contract,* that Singer's New York management was now afraid of product liability and Singer did not want to be in the brake business, and would allow the contract to expire on the reversion date. [Italics added.]

Appendix C

Since Perma has fully performed all of its obligations under the December contract, Singer would be obligated to make royalty payments even if Perma became insolvent, and thus we fail to see how the statement attributed to Kloby raises any triable issue of fraud. We also note that Kloby was deposed for over 300 pages by plaintiff's counsel and was never asked about the statement which Perrino now attributes to him.

Similarly, there is no substance to the suggestion that Perma would be cheated out of royalties due under the December contract if Singer sold its marketing rights to Monitor Enterprises, Inc. The December contract expressly provides that Singer shall have "absolute discretion" in determining "the method of manufacturing, exploiting and marketing the product," and thus it would seem that Singer is obligated to pay royalties regardless of how it markets the product. Assuming that Singer did in fact arrange to sell the marketing rights to Monitor, we simply cannot say that raises any triable issue of fraud.

Finally, Perrino states that he was told by Person of Singer that "Singer never had any intention of performing the December contract." This statement is alleged to have been made sometime after the parties entered into the December contract. While it would appear to raise a triable issue as to fraudulent intent, we think that Judge Bryan could properly conclude that the statement made in the affidavit was less reliable than the contradictory statements in the deposition, see 6 Moore, Federal Practice ¶ 56.22[1] at 2814 (2d ed. 1965), and that it did not raise a triable issue of fraud.

At the time of his deposition Perrino was able to point only to Singer's alleged failure to perform as evidence of its supposed intention not to perform. At one point in the deposition he said: "There is no way of me knowing exactly what their intention was at the time they said it, except that they promised certain things when everything else points to the fact that they did not intend to do what they said they were going to do." Moreover, Perrino admitted in his deposition that there had been substantial performance under the December contract, and this is not contradicted by the affidavit. If there is any dispute as to the material facts, it is only because of inconsistent statements made by Perrino the deponent and Perrino the affiant. "The deposition of a witness will usually be more reliable than his affidavit, since the deponent was either cross-examined by opposing counsel, or at least available to opposing counsel for cross-examination. Nevertheless, if a witness has made an affidavit and his deposition has also been taken, and the two in some way conflict, the court may not exclude the affidavit from consideration in the determination of the question whether there is any genuine issue as to any material fact." 6 Moore, Federal Practice ¶ 56.22[1] at 2814 (2d ed. 1965).

[7] During four days of deposition-taking Perrino was repeatedly asked to specify the basis of the fraud he alleged, and we think it is significant that he made no reference to the alleged conversation with Person when Singer might have had an opportunity to cross-examine him about it. We think it is also significant that Perma's lawyers failed to question Person about the alleged conversation when they examined him on deposition. Since Perrino was

admittedly a party to that conversation, this is plainly not a case where the party opposing summary judgment can complain of non-access to material facts. See Rule 56(f), Fed.R.Civ.P. Nor is this a case where the contradicting affidavit can fairly be said to contain evidence "newly discovered." If a party who has been examined at length on deposition could raise an issue of fact simply by submitting an affidavit contradicting his own prior testimony, this would greatly diminish the utility of summary judgment as a procedure for screening out sham issues of fact. Cf. Dressler v. MV Sandpiper, 331 F.2d 130 (2d Cir. 1964). Compare Engl. v. Aetna Life Insurance Co., 139 F.2d 469 (2d Cir. 1943), where Judge Clark observed that a party who resists summary judgment cannot hold back his evidence until the time of trial.

[8] The object of summary judgment is "to discover whether one side has no real support for its version of the facts," Community of Roquefort v. William Faehndrich, Inc., 303 F.2d 494, 498 (2d Cir. 1962), and thereby to avoid unnecessary trials. We recognize that summary judgment was never intended to be a substitute for trial by jury where the parties "really have issues to try." Sartor v. Arkansas Natural Gas Corp., 321 U.S. 620, 621, 627, 64 S.Ct. 724, 88 L.Ed. 967 (1944). We recognize also that there may be some instances where summary judgment is too blunt a procedural device for deciding difficult cases. See, for example, Miller v. General Outdoor Advertising Co., 337 F.2d 944 (2d Cir. 1964). Nonetheless, summary judgment cannot be defeated by the vague hope that something may turn up at trial. Radio City Music Hall Corp. v. United States, 135 F.2d 715 (2d Cir. 1943). Since neither the Perrino deposition nor the Perrino affidavit

raises any issue which we can call genuine, and since the allegations of fraud amount to little more than allegations on non-performance, we hold that Judge Bryan properly granted summary judgment dismissing the fraud claims.

IV.

As a separate ground for reversal Perma urges that Judge Bryan erred in admitting the affidavit of Singer's counsel in support of its motion for summary judgment. The affidavit was made by William C. Chanler, and it was basically an attempt to summarize over 1,000 pages of depositions, as well as numerous documentary exhibits. Perma now insists that the affidavit contains "a substantial number of important misstatements and misconstructions," that it was based on hearsay as to which Chanler was not competent to testify, and that it was not made on personal knowledge as required under Rule 56(e), Fed.R.Civ.P.

[9] While it is true that there are certain statements which do not appear to be made on personal knowledge and which are hence inadmissible,[13] see Union Insurance Society of Canton, Ltd. v. William Gluckin & Co., 353 F.2d 946, 952 (2d Cir. 1965), we think that Judge Bryan could have properly disregarded these statements, especially since none is relevant to the question of whether the December contract was obtained by fraud. "Even if an affidavit does contain some inadmissible matter, the whole affidavit need

13. At one point, for example, Chanler stated in his affidavit that there was O-ring leakage in a pressure switch component and that this resulted from "a basic design defect in the angle of the cylinder entrance through which the O-rings were inserted." From the depositions it is somewhat unclear whether this malfunction could properly be called "a basic design defect."

not be stricken or disregarded; the court may disregard the inadmissible parts and consider the rest of the affidavit." 6 Moore, Federal Practice ¶ 56.22 [1] at 2817 (2d ed. 1965).

[10] We also note that the motion to strike was much too general in that it did not specify which parts of the Chanler affidavit should be stricken and why. Many of the statements made in the Chanler affidavit were amply supported by the record, and we think that the plaintiff was required to do more than swing its bludgeon wildly. As Prof. Moore has said, the motion to strike must be precise. "[I]t should state specifically the portions of the affidavit to which objection is being made, and the grounds therefor." 6 Moore, Federal Practice ¶ 56.22[1] at 2818 (2d ed. 1965).

The judgments are affirmed.

APPENDIX D

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the twenty-fifth day of April, one thousand nine hundred and sixty-nine.

Present: HON. J. JOSEPH SMITH,

HON. PAUL R. HAYS,

Circuit Judges.

HON. JOHN O. HENDERSON,

District Judge.

PERMA RESEARCH AND DEVELOPMENT COMPANY,

Plaintiff-Appellant,

v.

THE SINGER COMPANY,

Defendant-Appellee.

Appeal from the United States District Court for the Southern District of New York.

Appendix D

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the orders of said District Court be and they hereby are affirmed with costs to be taxed against the appellant.

A. DANIEL FUSARO,
Clerk.

Judgment entered a true copy.

A. DANIEL FUSARO
Clerk

JOHN LIVINGSTON
Clerk

No Bill or Statement Attached.

APPENDIX E

PERMA RESEARCH & DEVELOPMENT COMPANY, *Plaintiff*,

v.

THE SINGER COMPANY, *Defendant*.

No. 66 Civ. 665.

UNITED STATES DISTRICT COURT
S. D. New York.

Jan. 27, 1970.

OPINION

MACMAHON, District Judge.

This is a motion by defendant, The Singer Company ("Singer"), for summary judgment dismissing the complaint, pursuant to Rule 56, Fed.R.Civ.P. Plaintiff, Perma Research & Development Company ("Perma"), contends that the motion should be denied both because of the doctrine of "law of the case" and because there are many issues of material fact in dispute.

The complaint, far from a model of clarity, asserts three claims. The first seeks damages of $41,000,000 for breach of a June 1964 contract between the parties, alleging that substantial numbers of an automobile anti-skid braking device invented by Frank A. Perrino, the president of Perma, and assembled by Singer under the contract were "defective as a result of inadequate quality control." The

second seeks to set aside a superseding contract made in December 1964 and to recover damages of $41,000,000 for fraud in the inducement. Both of these counts were dismissed by this court (Bryan, J.) and summary judgment granted in favor of Singer. The Court of Appeals affirmed. 410 F.2d 572 (2d Cir. 1969).

We are concerned here with the third claim, which is buried in the "WHEREFORE" clause of the complaint under the prayer for other relief. It alleges in the alternative that "if it be determined that the contract of December 21, 1964 be valid, Plaintiff demands judgment upon this contract for breach and non-performance thereunder in the amount of 41 million dollars."

There was extensive discovery, but neither party sought evidence concerning this alternative claim. Rather, it was either overlooked or intentionally ignored. Not surprisingly, therefore, on the earlier motion for summary judgment, Singer did not address itself directly to the alternative claim, nor did Perma. Despite this, it did not escape the notice of Judge Bryan, who, after noting the neglect of the parties, held that "in the present posture of this action and on the papers before me Singer has not demonstrated that there are no material issues of fact as to this claim which require trial and summary judgment on the claim must therefore be denied."

Had the matter stopped there, we would not feel constrained to follow Judge Bryan, for it is plain that because of the parties' neglect the court lacked sufficient information in proper form to consider the merits of the alternative claim and in such circumstances the doctrine of law of the case is not a strait jacket.[1] However, the matter did

1. Johnson v. Cadillac Motor Car Co., 261 F. 878, 882-883, 8 A.L.R. 1023 (2d Cir. 1919); Zdanok v. Glidden Co., Durkee Famous Foods Div., 327 F.2d 944, 952-953 (2d Cir.), cert. denied, 377 U.S. 934, 84 S.Ct. 1338, 12 L.Ed. 2d 298 (1964).

not stop there. Instead, Singer moved successfully for reargument asserting that "this claim of breach must be dismissed because as a matter of law the contract provided the exclusive remedy of termination for any alleged inadequacy of performance (Point I), or, alternatively, because on the basis of undisputed facts now before the Court, there has been no breach (Point II)."

Singer then made the precise argument, cited the same authorities and presented the identical facts now urged on this second attempt for summary judgment in its favor. There is no suggestion that there are any newly discovered facts or that there has been a change in the applicable law. In short, the very points now made were all made and rejected by this court when Judge Bryan granted reargument and adhered to his original decision. This squarely raises the question of whether this motion is barred by the doctrine of law of the case.

[1, 2] As Judge Learned Hand said, "the 'law of the case' does not readily bind a court to its former decisions, but is only addressed to its good sense."[2] Since the doctrine is addressed to the court's "good sense," it ought not be imposed on a mechanical basis.[3] Rather, its applicability turns upon a number of considerations.[4] One is judicial economy and another is the unseemliness of a court's altering a legal ruling as to the same litigants. A decision

2. Higgins v. California Prune & Apricot Grower, Inc., 3 F.2d 896, 898 (2d Cir. 1924).

3. United States v. Russell Mfg. Co., 349 F.2d 13, 19 (2d Cir. 1965).

4. Zdanok v. Glidden Co., Durkee Famous Foods Div., *supra*, 327 F.2d at 953.

in a given case is, therefore, said to be the law of the case, and no question previously decided will be decided again unless there is some compelling reason.[5]

[3] The balance of considerations here argues strongly against overruling Judge Bryan, for, although we are not compelled to follow his decision, in all "good sense" we are unable to find any convincing reason for refusing to do so.[6] We rest on his opinion both because it is the law of the case and because we are satisfied with it.[7]

Singer contends that the alternative claim for breach of the December agreement must be dismissed because as a matter of law Singer was not required under the contract to do anything until January 1966 and because the contract provides the exclusive remedy of termination for any alleged inadequacy of performance. Singer's contentions are based on paragraph 10 of the contract, which, in pertinent part, provides:

> "Reversion Right. In the event • • • [Singer] does not incur direct and indirect costs of at least $100,000 for marketing, promoting and advertising the Product • • • in any calendar year between January 1, 1966 and the December 31st preceding the time of expiration of • • • [Singer's] duty to pay royalties hereunder • • • [Perma] upon written notice • • • may notify • • • [Singer] of its exercise of its rights • • • [to reversion of its patents, tools, etc.]."

5. Wharton v. Hirsch, 348 F.2d 906, 907 (2d Cir. 1965).

6. Banco Nacional de Cuba v. Farr, 383 F.2d 166, 183 (2d Cir. 1967).

7. See, United States v. Certain Property, etc., 344 F.2d 142, 144 (2d Cir. 1965).

It was further provided that upon receipt of such notice, Singer "shall assign and convey to * * * [Perma] the patents and patent application assigned and conveyed hereunder" in consideration of Perma's payment to Singer of all its debts, plus $50,000 in cash, whereupon the December agreement would terminate.

Relying on the above provision and its tender of the patents and waiver of the $50,000 cash payment, Singer argues that paragraph 10 defines not only the sole measure of the performance required of Singer, but also specifies Perma's exclusive remedy for breach. We think, however, that paragraph 10 simply gives Perma an option to recover its patents and terminate the contract upon specified conditions. The option rests not with Singer but with Perma.

[4, 5] An option to terminate is not an exclusive remedy, and a party is not obligated to exercise such an option but may stand on his rights.[8] There is, thus, no basis in the agreement for Singer's contention that "under any conceivable version of the facts, as a matter of law Perma's sole remedy would be to reacquire its patents." Nor do we find support in the cases urged by Singer[9] for all of them, as Singer concedes, are predicated on the fact that patents were assigned without an express agreement by the assignee to pay any specified amount or to perform

8. Patents, 43 N.Y. Jurisprudence § 47; Bernard v. Golden Gate Mfg. Co., 187 App.Div. 542, 175 N.Y.S. 741, 744 (1st Dep't 1919), aff'd, 231 N.Y. 591, 132 N.E. 900 (1921).

9. Corbet v. Manhattan Brass Co., 93 App. Div. 217, 87 N.Y.S. 577 (1st Dep't 1904), modified, 183 N.Y. 548, 70 N.E. 1092 (1905); Ebert v. Loewenstein, 42 App.Div. 109, 58 N.Y.S. 889 (1st Dep't 1899), aff'd, 167 N.Y. 577, 60 N.E. 1110 (1901); Born v. Schrenkeisen, 110 N.Y. 55, 17 N.E. 339 (1888); Wing v. Ansonia Clock Co., 102 N.Y. 531, 7 N.E. 621 (1886); Rose v. Imbrey, 37 N.Y.S.2d 793 (Sup.Ct., Bronx Co. 1942).

any particular act. That premise is absent here. It is not supplied by reiteration of the complaint's erroneous conclusion that the contract is illusory because Singer "was not bound to perform any covenants or agreements." That construction of the agreement is frivolous, and it was expressly and correctly rejected by both Judge Bryan and the Court of Appeals

[6] Nor is the premise found in paragraph 13 of the contract, which, under the heading "Marketing," states that the "Buyer in its absolute discretion shall determine the method of manufacturing, exploiting and marketing the Product." We think it perfectly plain that paragraph 13 merely specifies that control of the means and methods of performance rests in Singer's discretion. The clause cannot be stretched to give Singer an absolute right unilaterally to abandon the contract or to terminate it at will.

Nor do we find merit in Singer's contention that as a matter of law Perma is limited to a claim for rescission. The *Neenan, Crowe* and *Matzka* cases[10] each involved suits by a licensor seeking not damages but rescission. None holds that the plaintiff may not recover damages but simply ground equity jurisdiction on the proposition that the legal remedy was inadequate because damages were of a speculative nature. Indeed, the *Crowe* case specifically recognized the right of the plaintiff "first to hold the contract rescinded or second to sue on the breach for damages." Our rejection of these authorities should not be understood as a holding either that the fact of, or the amount of, plaintiff's damages, if any, is certain. It may well be that there are

10. Neenan v. Otis Elevator Co., 194 F. 414 (2d Cir. 1912); Crowe v. Oscar Barnett Foundry Co., 213 F. 864 (D.N.J.1917); Matzka Corp. v. Kelley Dry-Pure Juice Corp., 19 Del.Ch. 359, 168 A. 70 (1933).

no damages or that, if there are, they are of a speculative nature.[11] We simply hold that that question cannot be determined on the record before us but must await developments at the trial.

[7, 8] Equally without merit is Perma's contention that Singer breached the December agreement by not shipping the product at once and throughout 1965. Perma claims support for this contention in the fact that Singer assumed five contracts previously made by Perma with various distributors which called for delivery of the product either in 1964 or in 1965. It is apparent, however, that the product never was perfected during 1965. Concededly, the parties were engaged in joint efforts to correct the defects at least until the end of July, and the product is still not fail-safe. Perrino admitted on his deposition that a malfunction will lead to a complete loss of braking power even today. Yet, in promotional material shown to Singer before the June agreement, Perma represented that the device had a "fail-safe feature which will automatically revert to the standard braking system in case of failure." Thus, the device was not fail-safe as that term is defined in impartial dictionaries[12] and by Perma before there was any motive to create

11. See Bigelow v. RKO Radio Pictures, Inc., 327 U.S. 251, 264, 66 S.Ct. 574, 90 L.Ed. 652 (1946); Story Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 562, 51 S.Ct. 248, 75 L.Ed. 544 (1931); Eastman Kodak Co. of New York v. Southern Photo Materials Co., 273 U.S. 359, 378, 47 S.Ct. 400, 71 L.Ed. 684 (1927).

12. Perma's pre-litigation definition conforms to the one given in the dictionary: "fail-safe (fāl'sāf'), *adj.* 1. *Electronics.* pertaining to or noting a mechanism built into a system, as in an early warning system or a nuclear reactor, for insuring safety should the system fail to operate properly. 2. equipped with a secondary system that insures continued operation even if the primary system fails. * * * [adj., n. use of v. phrase *fail safe*]." Random House Dictionary of the English Language (Unabridged Ed. 1969).

an issue of fact. We think that in view of these immutable admissions by plaintiff there can be no genuine issue that the device was not fail-safe when Singer decided to abandon the contract.[13]

It is nothing short of preposterous, in view of the modern doctrine of strict liability,[14] to suggest that Singer was under a duty to ship a product concededly defective. Indeed, Perrino, as a deponent, admitted as much,[15] and as a litigant based his rejected claim for breach of the June contract on Singer's alleged shipment of defective product.

[9] More significantly, we find no merit in the foregoing contentions of either party because the contract, as construed correctly by Judge Bryan and the Court of Appeals, neither permits Singer to sit idly until 1966 nor requires it to start manufacturing or shipping at once.

13. Perrino the affiant asserts that whether the device was fail-safe when Singer decided not to market it is the core of the present dispute between Perma and Singer. The assertion, of course, is an argumentative conclusion and we reject it. Perrino attempts, in his affidavit, to extricate himself from his admissions in his deposition by tailoring the definition of "fail-safe" and coloring his testimony with the lame explanation that when he said a malfunction can lead to a loss of brakes he merely meant that a mechanical product not correctly built may not function and that the loss of brakes does not demonstrate an absence of a fail-safe feature. Material issues of fact, however, cannot be created simply by contradictory or "inconsistent statements made by Perrino the deponent and Perrino the affiant." 410 F.2d at 578.

14. Goldberg v. Kollsman Instrument Corp., 12 N.Y.2d 432, 240 N.Y.S.2d 592 (1963).

15. "Q That's because you wouldn't ship 500 replacement units or wouldn't permit the shipment of 500 replacement units if you believed them to be defective, is that right?

"A That's right. But that doesn't mean that these 500 units may not be part of the units which were shipped over my objection to Mr. Romel that defective units should not be shipped." Deposition of Perrino, p. 190.

Rather, it obligates Singer to use its best efforts to manufacture and market the product.[16]

"Best efforts," like "reasonable care," is a term which necessarily takes its meaning from the circumstances. Set against the background of defects in both the quality and design of the product, which the parties had experienced over a six-month period while operating under the June 1964 contract, we think that "best efforts" here means that Singer was required to continue collaborating with Perma for a reasonable length of time in a good faith effort to solve the problems then preventing marketing of the product. Clearly, that is what the parties intended, for that is what they started doing immediately. Singer spent substantial time and money and the parties engaged in joint efforts for over six months to solve the problems. Their intention to keep trying is also revealed in the fact that simultaneously with the December contract, they entered into an agreement whereby Perma undertook to furnish know-how and technical assistance to Singer for

16. The complaint alleges in Count II that the December agreement was illusory because Singer was not bound to perform any covenants or agreements and retained complete discretion as to manufacturing and marketing. Urged by Singer, Judge Bryan rejected the contention by reading the *Duff-Gordon* rule into the agreement and thus found an obligation on defendant's part to use its best efforts to manufacture and market the product.

The *Duff-Gordon* rule is that "a promise may be lacking, and yet the whole writing may be 'instinct with an obligation' imperfectly expressed." Wood v. Lucy, Lady Duff-Gordon, 222 N.Y. 88, 91, 118 N.E. 214 (1917). Under the rule, the implication to use "best efforts" is clearly predicated on the lack of an express promise.

While it is true that the December agreement did contain an express promise of the performance required by Singer after January 1, 1966, it was silent as to what Singer was supposed to do from December 1964 until then. We, therefore, think that Judge Bryan was correct in filling the void with an implied promise.

the next six months in consideration of Singer's payment of $9,800 per month. The intention is further manifested in the main agreement's postponement of Singer's obligation to spend money on marketing and promotion until January 1, 1966. That, we think, shows an understanding that further experimental work would be necessary to perfect the product before Singer could be expected to put it on the market.

Singer's obligation to continue making the collaborative effort to correct the defects arose immediately upon entering into the December agreement. The obligation, however, was not perpetual. Rather, we think, since no time was stated for performance, Singer was obliged to keep trying for a reasonable length of time.[17]

Our construction of the contract is consistent with Judge Bryan's and compels us to reject Singer's contentions that its only duty was to market and promote the product after January 1, 1966, as specified in paragraph 10 of the contract, and that Perma's sole remedy for an inadequate performance both under the contract and as a matter of law was to terminate the agreement and recover its patents.

We conclude, therefore, that Judge Bryan was correct in rejecting Singer's contention that on any conceivable state of facts Singer is entitled to judgment dismissing the alternative claim as a matter of law.

[10] We turn, then, to whether there are any genuine issues of fact requiring trial. The factual issue, if any, posed by the contract as construed by the court, is whether Singer did use its best efforts for a reasonable length of time in collaboration with Perma to perfect the product in order to be in a position to market it.

17. 1 Williston, Contracts § 38, pp. 112-113 (3d ed. 1957).

Appendix E

There is no question that Singer did spend considerable time and money in an effort to perfect the product. Indeed, the Court of Appeals noted "there was substantial performance under the December contract, at least until Singer concluded that the product was not 'fail-safe' and hence unmarketable. • • • Perrino admitted in his deposition that the parties were engaged in joint efforts to solve the 'fail-safe' problem as late as six months after the December contract was negotiated." 410 F.2d at 576-577.

The issue, however, is not whether there was substantial performance, as Singer contends, or whether the product was "fail-safe," as Perma contends, but whether, as Judge Bryan stated, Singer's performance was adequate. For example: (1) Did Singer use its best efforts for a reasonable time in collaboration with Perma to perfect the product under all of the circumstances? (2) In view of the fact that the device was not "fail-safe," was Singer justified in abandoning the contract either because it was impossible to make the device "fail-safe" or because it could not be made "fail-safe" without unreasonable, unwarranted or impractical efforts and expenditures of time and money out of all proportion to engineering and economic realities?

Such questions could not be answered definitively on the basis of the record before Judge Bryan, nor can we answer them on the refurbished record before us.

In the first place, the voluminous depositions were directed not to breach or performance of the December agreement but to breach or performance of the June contract, to fraud or the lack of it as to the December agreement, and to Singer's counterclaim for fraud. This is understandable because no one paid any attention to the alternative claim for breach of the December agreement and, even if the claim had been noticed, there was no suggestion at that time of

Appendix E

an implicit promise by Singer to use its best efforts. That promise did not come into the case until Judge Bryan's decision long after the depositions were closed. As a result, only a few of the thousands of questions asked have any relevance whatever to the issues now before the court.

In the second place, Singer's papers on this motion are directed not to a demonstration of the absence of a genuine factual issue respecting its use of its best efforts but to the rejected proposition that the claim is moot as a matter of law because Singer had a right to terminate the contract upon tendering the patents to Perma. Likewise, Perma's papers are not addressed to the issue. Rather, they contain a mass of irrelevancies, arguments, opinions and conclusions. The burden, however, of demonstrating the absence of any genuine issue of fact is upon Singer, and it has failed to do so.

[11] Finally, a motion for summary judgment is always addressed to the discretion of the court.[18]

The device which is the subject matter of this litigation has over 100 separate parts and is an extremely complicated mechanism. Much of the voluminous deposition is involved with engineering technicalities, and, as we have seen, there is little in the depositions of relevance to the present issue. The affidavits, exhibits and memoranda are extensive. The sheer quantity of the material to be analyzed cautions against the expenditure of judicial time in an effort to sift out and piece together the undisputed facts essential to a summary judgment. The issue are further obscured by argumentative statements and counter-assertions, conclu-

18. Rockefeller Center Luncheon Club v. Johnson, 116 F.Supp. 437 (S.D.N.Y. 1953); 6 Moore, Federal Practice ¶ 56.15 [6], at 2421 (2d ed. 1966).

sions and conflicting inferences which the parties attempt to draw from an incomplete record. Too much is left open.

Plainly, there is a genuine issue as to whether Singer, in collaboration with Perma, did use its best efforts for a reasonable length of time to correct the defects in order to make the product marketable.[19] When we add the fact that summary judgment has already been once denied, it is readily apparent that on the record here summary judgment would rest on quicksand. The cumulative weight of the obstacles is too heavy for so frail a vehicle as summary judgment.[20]

We are convinced under the circumstances that sound judicial administration dictates that the court withhold judgment on the involved questions of law and fact presented here until the whole structure stands on a solid foundation established on a trial where the evidence can be directed to the relevant issue, the proof more deeply developed, the ultimate facts definitively found and the issues put into clear focus. Summary procedures, however salutary, where issues are clear-cut and simple present a treacherous record for deciding complex litigation. Good judicial administration demands that judgment of the ultimate questions involve in this case be withheld until there is a solid basis for findings by a court or jury based on litigation or a comprehensive statement of agreed facts.[21]

Accordingly, the motion for summary judgment is denied.

So ordered.

---

19. There may be other issues of fact, and we do not wish to foreclose the parties or the pre-trial or trial judge in that regard.

20. Boston & M. R.R. v. Lehigh & N. E. R.R., 188 F.Supp. 486, 491 (S.D.N.Y. 1960), appeal dismissed per curiam, 287 F.2d 678 (2d Cir. 1961).

21. Kennedy v. Silas Mason Co., 334 U.S. 249, 256-257, 68 S.Ct. 1031, 92 L.Ed. 1347 (1948).

APPENDIX F

Opinion

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

66 Civ. 665

PERMA RESEARCH & DEVELOPMENT COMPANY,

Plaintiff,

against

THE SINGER COMPANY,

Defendant.

---

66 Civ. 666

PERMA RESEARCH & DEVELOPMENT COMPANY,

Plaintiff,

against

THE SINGER COMPANY,

Defendant.

METZNER, D. J.:

Defendant moves for summary judgment dismissing the complaint on the ground that the contract sued upon was induced by material misrepresentations.

This is defendant's third motion for summary judgment. The first motion was disposed of by Judge Bryan. The pertinent part of that opinion, which is applicable to the present motion, held that the complaint alleged a substan-

tial claim for breach of the December 21, 1964 contract. Since neither of the parties had addressed themselves to that claim, the defendant had not demonstrated that there were no material issues of fact. Therefore, the motion for summary judgment was denied. Judge Bryan's order was affirmed on appeal. 410 F.2d 572 (2d Cir. 1969).

Defendant then brought on a second motion for summary judgment which was denied by Judge MacMahon on January 27, 1970. In the papers submitted on that motion, defendant argued:

> "That Singer was justified in abandoning the project because of the fail-safe problem would seem clear from the fact that Perrino admitted on his deposition, even as of today, any malfunction of the device might result in a total loss of braking power."

It further argued:

> "Thus it is plain that the dispute between the parties is not as to whether a failure in the Perma device might produce a total loss of brakes, but whether that conceded fact shows that the device is not fail-safe. . . But in any event, we think it is plain that Singer was amply justified in the exercise of its absolute discretion in taking the same view as Governor Rockefeller and determining that under those circumstances, the device was not fail-safe and, therefore, in abandoning the project.
>
> "We submit that this disposes of the entire litigation."

In those papers defendant also referred to reports on the operations of the product which it claims it received

for the first time in January 1965. It stated that it was disturbed by these reports "since Singer had entered into the agreement in June 1964 largely on the basis of a movie shown them by Perma which stated categorically that the device had a 'fail-safe feature which will automatically revert to the standard braking system in case of failure.'"

Judge MacMahon discussed defendant's obligations under the contract. He found that there was a genuine issue as to whether the defendant, in collaborating with the plaintiff, used its best efforts for a reasonable length of time to correct the defects in order to make the product marketable. He said:

> "For example: (1) Did Singer use its best efforts for a reasonable time in collaboration with Perma to perfect the product under all of the circumstances? (2) In view of the fact that the device was not 'fail-safe,' was Singer justified in abandoning the contract either because it was impossible to make the device 'fail-safe' or because it could not be made 'fail-safe' without unreasonable, unwarranted or impractical efforts and expenditures of time and money out of all proportion to engineering and economic realities?"

On this third motion, defendant now argues that since Judge MacMahon found as of fact that the product was not fail-safe, it should succeed on this motion because of its affirmative defense that it entered into the contract because of the false representation that the product was fail-safe. In essence this is a reiteration of defendant's position before Judge MacMahon, quoted above, buttressed by Judge MacMahon's finding that the product was not fail-safe.

Appendix F

Whatever effect the representation in the film may have had prior to June 1964, it is perfectly obvious from the record and the prior opinions that defendant could not have been under any delusion that the product was fail-safe because of events and transactions between the parties subsequent to the viewing of that film. The contract in issue was entered into in December 1964.

Defendant argues that in view of Judge MacMahon's finding that the product was not fail-safe, there no longer exists a controverted issue as to Singer's affirmative defense that the contract was entered into on reliance on a material misrepresentation. This position overlooks the above-quoted portion of Judge MacMahon's opinion indicating that issues for a trial do exist despite the fact that the product was not fail-safe.

Motion is denied. So ordered.

Dated: New York, N. Y.
May 14, 1970

/s/ CHARLES M. METZNER
U. S. D. J.

APPENDIX G

PERMA RESEARCH & DEVELOPMENT COMPANY,
Plaintiff,

v.

THE SINGER COMPANY,
Defendant.

No. 66 CIV. 665 KTD.

United States District Court,
S. D. New York.

April 11, 1975.

OPINION

KEVIN THOMAS DUFFY, District Judge.

This case has had a long and tortured history. It was instituted on March 9, 1966, and the operative facts go back several years prior to that time. The trial spanned eight months and included many thousands of pages of exhibits.

Basically, it is a breach of contract action, plaintiff and defendant having entered into two contracts, one on June 18, 1964, the other on December 21, 1964. By judicial curtailment of the issues, only the breach of the December 21, 1964 contract was the subject of the trial but in order to put into perspective all of the claims, counterclaims and defenses of the parties it is necessary to review the negotiations leading to the June 18, 1964 contract, the relationship of the parties while operating thereunder, and particularly the knowledge gained by the defendant during the period starting with the negotiations leading to the June 18, 1964 contract and ending with the December 21, 1964

contract; and also the performance by the defendant under the December 21, 1964 contract.

Both contracts[1] involve an anti-skid device for automobiles invented by the president of the plaintiff, Frank Perrino (hereinafter "Perrino"); patented by him and the patents assigned first to the plaintiff corporation and thereafter pursuant to the December 21, 1964 contract to the defendant. It should be remembered that anti-skid devices for automobiles were not generally marketed prior to 1964, and that there is no attack whatsoever on the patents which underlie this suit.

This action started as one to set aside the December 21, 1964 contract and to enforce certain provisions of the June 18, 1964, contract. That complaint was dismissed by Judge Frederick vanPelt Bryan of this Court except that Judge Bryan found that cause of action lay in the "Wherefore" clause of the complaint that the defendant may have not used its "best efforts to market and manufacture" the invention assigned to it under the December 21, 1964 contract. Civil No. 66-665 (S.D.N.Y., filed March 29, 1968), aff'd 410 F.2d 572 (2d Cir. 1969).

Thereafter, Judge MacMahon of this Court, in denying another motion for summary judgment, further delineated the issue of "best efforts" as follows:

> ". . . we think that 'best efforts' here means that Singer was required to continue collaborating with Perma for a reasonable length of time in a good faith effort to solve the problems then preventing marketing of the product."

• • •

1. A third contract was entered into by the parties which is referred to herein as the "Technical Services Contract". No breach has ever been claimed of this contract although it will be referred to from time to time throughout this opinion.

> "For example: (1) Did Singer use its best efforts for a reasonable time . . . to perfect the product under all the circumstances? (2) In view of the fact that the device was not 'fail-safe,' was Singer justified in abandoning the contract either because it was impossible to make the device 'fail-safe' or because it could not be made 'fail-safe' without unreasonable, unwarranted or impractical efforts and expenditures of time and money out of all proportion to engineering and economic realities?" 308 F.Supp. 743, 748-49 (S.D.N.Y. 1970)

While I defined the issues at the start of trial in a somewhat similar manner to that of Judge MacMahon, I permitted extraordinary latitude to the defense to prove all that it could and to make any arguments it wished as to its defenses and its counterclaim. Since the case was tried without a jury I permitted certain evidence to be received which is of questionable probative value. All of this was done with a view that this trial would mark an end to this litigation.

In summary, I find for the plaintiff on the claim that was tried. I also find that the counterclaim advanced by defendant was totally sham as a matter of fact.

This opinion is to be considered findings and conclusions as required by Rule 52 of the Federal Rules of Civil Procedure.

I.

BACKGROUND OF THE PARTIES

Frank Perrino, although a person without formal engineering training, has been a "tinkerer" all his adult life.

Appendix G

After being discharged from the Air Force, where he received training as an airplane mechanic, he returned to his native New England where he invented an accelerator brake and filed for a patent in 1959. An anti-skid control was part of this accelerator brake patent application. In 1962, a separate patent application was filed for the anti-skid invention. Thereafter, the anti-skid was separated into five patent applications representing different aspects of the device. These applications matured into five separate patents between 1966 and 1969 after the assignment of them to the defendant.

Perrino founded the plaintiff corporation, Perma Research & Development Company (hereinafter "Perma") under Delaware law and has been its president at all relevant times. Perma has its principal place of business in North Attleboro, Mass.

The Singer Company (hereinafter "Singer") is a New Jersey corporation with its headquarters in Rockefeller Center, New York, N. Y. While originally started as a manufacturer of sewing machines, it has become a widely diversified manufacturing concern. The 1965 annual report for the Singer Corporation shows sales of $980 million from manufacturing and sale of heating and air conditioning equipment, technical products, business machines and computers, and a variety of other devices, of course including sewing machines. During 1965 alone, Singer spent $18 million on its various research and development activities.

Both parties acknowledge that this Court has jurisdiction over this action based on diversity of citizenship. 28 U.S.C. § 1332.

Appendix G

II.

BACKGROUND TO THE NEGOTIATIONS LEADING TO THE JUNE 18, 1964 CONTRACT

After the invention of the accelerator brake and the recognition that the anti-skid control could be separated from it, Perrino tried to interest various people in the automotive industry in the devices. Of particular note is the fact that he took the anti-skid device to the Bendix Corporation in 1960, where it was considered by Stanley I. MacDuff, who tested it once by driving it home and who recommended that Bendix decline any interest in the device. (As we will see later, this was the same Stanley I. MacDuff whom the defendant Singer employed as an expert when it became apparent that this case would go to trial and who was permitted to give "expert" testimony at trial.) Perrino, on behalf of Perma, was apparently unable to interest anyone in the anti-skid device but continued working on it at North Attleboro, Mass.

Perma also arranged to have tests made of its anti-skid device by certain automotive companies and by the Motor Vehicle Research of New Hampshire (hereinafter "M.V.R.N.H."), apparently a private organization owned by one Andrew White. M.V.R.N.H. agreed to do the testing for a portion of the capital stock of Perma and White became a member of the Board of Directors of Perma. M.V.R.N.H., thereafter, issued a glowing report on the Perma anti-skid device. Much of the report, however, only hints at conclusions and little firm test data is contained therein. Armed with this report and a promotional firm, Perrino, on behalf of Perma, set out again to sell

some manufacturer on the anti-skid control device. Apparently this effort was again unsuccessful although Perma had put together a number of hand-tooled, hand-finished prototypes.

Apparently in late 1963 or early 1964, Perma had arranged for a distribution agreement of the anti-skid device with a small number of automotive equipment distributors and new car dealers and had entered into a contract for the manufacture of the device by the Worcester Stamped Metal Company of Worcester, Mass., which in turn had subcontracted with others for the manufacture and assembly of some of the components of the device.

Perma, through Perrino, continued to try to interest safety officials, highway patrols, insurance companies and others in the device. Apparently some officials of the Singer Company (Canada) Ltd. saw the promotional film, the M.V.R.N.H. bulletin and advised the management of the Elizabeth, N. J., Singer plant of the device.

During the period of the early 1960s, imports of cheaper sewing machines (particularly Japanese made models) had cut into Singer's share of the sewing machine market. Singer had already started to diversify its product line and yet much of Singer's Elizabeth plant, which had been engaged principally in the manufacture of sewing machines, stood idle.

III.

THE NEGOTIATIONS FOR THE JUNE 18, 1964 CONTRACT

In February 1964, representatives of Singer's Elizabeth, N. J., plant travelled to North Attleboro, Mass., to meet

with Perrino and other representatives of Perma. Perrino apparently told the Singer people at that time that the Perma anti-skid device was "fail-safe" (or in plaintiff's version, "had fail-safe features") and "that in case of a failure, that the car would revert back to its normal braking". The Singer representatives were also assured that in the event of some internal failure "the unit in effect deactivated and reverted back to the original brake system on the car". The Singer people were also shown the Perma promotional film which stated "The Perma anti-skid control . . . includes a fail-safe feature which will automatically revert to the standard braking system in case of failure." These statements or ones similar to them allegedly were reiterated by Perma officials in the months leading to the June contract.

Similarly, Singer was told that the device was "perfected" and that Perma had "had testing done by an independent laboratory." In connection with this latter assertion Perma supplied the Singer officials with copies of the M.V. R.N.H. report.

It is on the basis of these asserted "false misrepresentations" that the defendant asserts its counterclaim and its affirmative defense since the device was neither perfected nor fail-safe.

At the initial meeting in North Attleboro, the Singer personnel present were Messrs. Kloby, Morris and Sprague. Kloby was to be the man in charge of the Perma anti-skid program for Singer. He admitted that he had no background in engineering. Morris at the time was the assistant general manager of the Elizabeth facility and after June 1964, became the general manager of the facility. Sprague was the chief engineer of the Elizabeth plant.

Each was a witness to a demonstration of the Perma product at this February meeting. First a Perma employee drove a car equipped with the anti-skid device on a test tract behind the Perma offices. Then the representatives of Singer were given a demonstration ride in a car equipped with a Perma anti-skid device over country roads. A number of stops were made under panic conditions. Some of these were made while the car was driven with two wheels on dry road and the other two on the wet, snow-covered shoulder.

Singer had immediately after the initial meeting in February been given a set of plans and specifications, along with three anti-skid controls and a cutaway of the device. These were necessary for Singer to work out the cost to build the anti-skid control. In return, the Singer officials left with Perma a brochure which was boastful about the engineering and quality control expertise of Singer.

While it is clear that Singer sought out Perma to beef up production in its Elizabeth, N. J., plant, it is similarly clear that Perma was anxious to have Singer take over the manufacturing of its anti-skid device since the Worcester Stamped Metal plant was on strike and Perma was dissatisfied with the quality control of the units being delivered by Worcester.

Prior to signing the June 18, 1964 contract, Perrino and his cohorts from Perma visited the Elizabeth plant and displayed to the top Singer officials the entire device with all of its components spread out on conference tables. The promotional film was shown and the M.V.R.N.H. report was distributed. Among the many Singer representatives present at the presentation were the top officials of the Elizabeth plant along with the top engineers assigned to

that facility. This fact becomes important as we will see because one of the "experts" who testified on behalf of the defendant at trial indicated that any engineer worth his salt would, on inspection, have rejected the Perma device as totally unmarketable. I must assume that this was a damning of the Singer engineering capabilities, which is a strange defense and one which I will not rule on.

IV.

THE JUNE 18, 1964 CONTRACT AND THE EXPERIENCE OF THE PARTIES THEREUNDER

On June 18, 1964, the parties entered into a Patent Licensing Agreement by which Perma granted Singer the exclusive right to manufacture the device in the United States. In order to oust the Worcester Stamped Metal Company, Singer agreed to buy the inventory then being held by Worcester. This cost over a million dollars.

It is undisputed that, after the Elizabeth plant acquired the inventory and started production, many defects were found in the mass-produced device. During this period from mid June to December 1964, officials from Perma visited the Elizabeth plant quite often and the parties redesigned a number of the components of the device, including many of the so-called "fail-safe features".

Rather than attempt to describe the entire device, I am appending hereto a copy of one of the patents which most fully discloses its configuration and operation. (Appendix A) From this the reader should note that anti-skid control consists of a flexible cable attached to the speedometer cable, which drives a set of weights in the sensor; the weights spin in a centrifugal fashion which, when suddenly

slowed or stopped, collapse in such a fashion or one side to force a cam gear to actuate a micro switch which permits electricity to pull back a solenoid on the other side of the sensor; which in turn permits a rotary valve to introduce vacuum into the system. This vacuum draws back a diaphragm in the "Perma-Vac", which in turn pulls back a plunger which takes hydraulic fluid from the brake system and thus relieves pressure on the brakes. A pressure switch is included in the device at this point so that when pressure is reduced the electricity flowing to the solenoid is cut off and the vacuum stopped at the diaphragm, thus permitting full brake pressure to be exerted. In this manner the brakes are "pumped" in a "panic stop", thus lessening the chance for a locked wheel skid.

During the period of June through December 1964, the pressure switch was redesigned with Singer's chief engineer on the project so deeply involved in the redesign that he made some of the parts by himself in the tool room at the Elizabeth plant.

Similarly, it was discovered that the cam gear which activated the micro switch was not operating properly. Singer's chief engineer on the project concluded that this feature was "marginal" and suggested that it be redesigned. Instead, a temporary solution was worked out whereby the cam gear was polished.

Other difficulties with the device were recognized by the Singer staff. They noted that the sensing unit could become packed with contaminants in ordinary usage; that the rotary valve could and did "bind" on occasion; and that the Perma-Vac spring should be strengthened.

On September 17, 1964, Singer's chief project engineer confided his fears about the reliability of the anti-skid control to management in a memorandum which reads in part:

> "I am deeply concerned about the reliability of this device in general. My cause for alarm stems from the fact that the performance testing does not detect some defects which could cause malfunction of the unit during operation on a car . . . I feel it would be advisable to get a detailed specification from Perma listing all the possible causes for failure so we may incorporate tests to detect deficiencies before sending units out of the plant. I strongly recommend that the legal aspects of responsibilities be thoroughly investigated so that we may be fully covered for what is sold before the confidence level is determined to be satisfactory."

Whether, in fact, Singer asked Perma for such "detailed specification" is unclear but it is clear that none was forthcoming.

During the period from June through December 1964, Singer conducted a number of tests on the anti-skid controls that it was producing. These were done on test stands acquired from Perma. A device was also installed on a Singer vehicle. These tests, however, were not exhaustive, but that was a choice by Singer management and in no way now bolsters its counterclaim and affirmative defense.

Because of the problems recognized by Singer, few of the anti-skid controls were marketed prior to the December contract, thus leaving Perma financially distressed. Both parties recognized the need for further engineering on the device and this situation led to the negotiations for the December 21, 1964 contract.

Appendix G

V.

NEGOTIATIONS FOR DECEMBER 21, 1964 CONTRACT BETWEEN THE PARTIES

The exact genesis of the negotiations leading to the December 21, 1964 contract between the parties is unclear but it is clear that Perma entered the negotiations with a negative balance sheet and the recognition that it could not perfect the anti-skid device for market on its own. Singer offered to Perma its engineering skills and purported expertise.

But, before entering the December 21, 1964 contract, Singer, although it had done its own marketing surveys and had seen Perma's estimates, commissioned William E. Hill & Co., Inc. to do another market survey. The report of the Hill organization delivered to Singer management at least a week prior to the December 21, 1964 contract with Perma totally demolishes the counterclaim and affirmative defense advanced by Singer. It so dramatically proves that the management of Singer could not have relied on any alleged false representation by Perma that it is set forth in full in Appendix B hereto.[2]

Among the "Principal findings and conclusions" of the report are the following:

> "The Perma anti-skid control falls short of meeting requirements of automotive engineers and does not provide the improvement possible in theory. The consensus of many engineering tests that have

2. It is astounding to me that in the hundreds of pages of proposed findings and conclusions and briefs submitted by the representatives of Singer there is not one mention of the Hill report, except to serve as a crutch on the question of damages.

Appendix G

> been run on the unit indicate that the Perma control, as compared to a panic or locked wheel stop, gives improved steering control but requires a greater stopping distance to come to a complete stop. The automotive brake and safety engineers who have reviewed its performance do not agree on the value of the Perma anti-skid control . . ."
>
> • • •
>
> "The General Motors Research Center, the Ford Advanced Design Group and the Chrysler Brake Laboratory are against the use of the control."
>
> • • •
>
> "Based on evaluation by major automobile manufacturers the Perma anti-skid control does not meet established requirements."

In an appendix to the Hill report is a summary of the results of tests which representatives of Singer, at trial, claimed were concealed from Singer by Perma prior to the December 21, 1964 contract. Apparently this claim has now been abandoned.

[1] Singer, however, still presses its claim that Perma falsely misrepresented that the device was "fail-safe" and that it was fully "perfected" and "tested" and that Singer relied upon these representations in entering the December 21, 1964 contract. I hold as a matter of fact that there was no such reliance. Without reliance any misrepresentation is not cognizable at law either as a counterclaim or as an affirmative defense. In the situation presented only an ostrich could make the claim defendant does. It is clear to me that both the counterclaim and the affirmative defense raised by Singer are sham.

VI.

THE DECEMBER 21, 1964 CONTRACT BETWEEN THE PARTIES

On December 21, 1964, the parties entered into a contract whereby Perma assigned its patent applications to Singer. It is clear that the parties knew at that time that the anti-skid device was not fully perfected and that Singer would have to do work to make the device a marketable one. In consideration for the assignment of these rights Singer paid off all the outstanding debts of Perma and agreed to pay royalties on each Perma anti-skid control marketed. No minimum royalty was agreed to in the contract, a somewhat unusual arrangement.

It is true that both parties to the contract were looking for the anti-skid control to be quickly marketed, for both had expectations of deriving profits from it, but these expectations do not give credence to Singer's argument that the contract did not call for any engineering work by Singer on the device. That promised engineering work is the total foundation upon which the December 21, 1964 contract is based. It is true that the expected engineering work is not spelled out in the contract. And it is for that reason that we must consider whether Singer made its best efforts in collaboration with Perma for a reasonable length of time in a good faith effort to solve the problems then preventing the marketing of the product.

In this connection it must be noted that the December 21, 1964 assignment of Perma's patent rights to Singer was accompanied by a Technical Services Contract of the same date. This Technical Services Contract required Perma to collaborate with Singer in any engineering efforts which

Singer required the inventor to do to make the device marketable. The very existence of the Technical Services Contract gives the lie to Singer's contention that no further engineering work was contemplated by the parties as of December 21, 1964, the date they entered the patent assignment contract.

VII.

SINGER'S PERFORMANCE UNDER THE CONTRACT

To properly evaluate Singer's performance under the patent assignment contract it is necessary to look first at Singer's capability. In 1965, Singer had 15 research and development laboratories and employed more than 2,200 scientists, engineers and technicians. Singer's net earnings in 1965 were $44 million.

Singer chose to leave in charge of the Perma project after December 21, 1964, those who had worked on production under the prior June contract: Robert Kloby and Albert Romel. Kloby was given the title Manager, Perma Anti-Skid Program. His education and experience were concentrated in marketing, market evaluations and sales projections. He had no engineering background whatsoever. Albert Romel was an engineer graduated from the Newark College of Engineering in June 1964, which he attended while working for Singer at the Elizabeth plant. Virtually for his entire adult life Romel had been employed at the Elizabeth plant where he had been engaged in the manufacture of sewing machines. Prior to working on the Perma device, he had no employment experience in automotive or brake industries. Until he started to work on the Perma device he had never worked on brake systems.

Appendix G

Both Kloby and Romel testified at trial. Romel, the engineer in charge assigned to the project by Singer, took 22 minutes on the witness stand to compute the relative proportion of one circle to another after being given pencil and paper and the relevant equations which require merely squaring one number. At the point this exercise was called for, Romel had been on the stand for a number of days. He did not appear nervous. Yet his computations were totally wrong. The history of the project shows that Romel was not an innovator but merely followed his instructions. He testified that although he had worked on the Perma device starting in June 1964, and had been exposed to it in February 1964, he had not analyzed the invention prior to the contract of December 21, 1964.

Romel's staff consisted of three graduate engineers, one engineering student and various others who were given grandiose titles which seem to have been invented solely for this litigation. One engineer from Singer's Denville research laboratory was also assigned to the project for a period of about one month.

Kloby and Romel were under orders to keep expenses down. The manager of the Elizabeth plant received a memorandum from corporate headquarters dated January 7, 1965, which stated in part:

> "It is of the utmost importance that we spend no additional moneys and generate cash flow as quickly as possible . . ."

To this the following response was made:

> "Every additional expenditure for the Perma product line is being scrutinized thoroughly by this office. No additional moneys are being spent unless absolutely necessary in order to control our total investment."

Appendix G

One Singer official estimated that during the year 1965, the project cost $190,000 including salaries of all assigned to the project, allocation of normal expenses to run the Elizabeth plant, etc. This figure appears inflated although Singer at trial tried to prove an even more bloated figure. In this attempt the witnesses for the defendant contradicted themselves and each other in many respects. For example, Kloby testified that in September 1965, he was removed from the Perma project and returned to "Forward Planning" at the Elizabeth plant; yet his salary for the entire year is attributed to the Perma project.

In any event, it is clear that Singer gave inadequate funding to the entire program and staffed it with inept and inexperienced people who were unable to even understand the problems, much less cope with them. At one point Singer advertised for an automotive engineer who specialized in brake systems. He was not hired.

Shortly after undertaking the December 21, 1964 contract, Singer attempted to set up "liaison" with automotive and brake manufacturers. This consisted of one trip for Kloby and Romel to the Detroit area early in 1965, and conversations with various people there. It is astounding that Kelsey-Hayes, a well-known brake manufacturer, at that time offered to analyze and do tests on the device (apparently without cost to Singer), but that the offer was rejected out of hand, at least until Singer recognized that this litigation was impending.

In March 1965, Singer received from E. I. duPont de-Nemours & Co. (hereinafter "duPont") an analysis of a

1963 vintage Perma device. This analysis set forth a number of potential failure modes in the device which could cause an unsafe condition and loss of brakes. No independent analysis of the device was made at this time by Singer. Romel thereafter concentrated the efforts of his staff in attempting to resolve the problems posed by the duPont report and those obviously required by the changes made in braking systems introduced by the automotive manufacturers.

Some of the 1965 model automobiles had for the first time self-adjusting brakes and disc brakes. For the Perma device to work with these new features required greater fluid displacement and higher hydraulic pressure. Pursuant to the Technical Services Contract, Perma proposed to change the device by changing the piston bore and the spring in the Perma-Vac. This, however, would have rendered worthless much of Singer's inventory and in February 1965, Perrino, at Romel's direction, designed a transfer valve whereby vacuum would be introduced to the front of the Perma-Vac diaphragm to assist in pumping the brakes. The device thus became totally vacuum dependent with this change and introduced more failure modes into its operation. If there was a loss of vacuum for any reason (e. g. an engine stall), the brakes might not be fully reapplied.

In order to meet the demands of the new braking systems Singer also experimented with a "restrictor valve" which was devised by Romel and those working for him. The "restrictor valve" is a simple device which permits hydraulic fluid to run more freely in one direction than in the other. It appears that there are serious questions as to the efficacy of this addition and these questions are of real substance.

It is clear to me that Romel and his staff did not have a full understanding of the dynamics of the device or of an automobile to which it was to be attached.

Romel tested various models of the Perma anti-skid throughout the period from June 1964 through December 1965, on test stands basically supplied by Perma at the Elizabeth Singer plant. He also arranged for road tests at the Linden, N. J., airport.

It is of some interest that the officials of Singer spurned Perrino and the other officials of Perma during most of the period after the December 21, 1964 contract. While the Perma people were at the Elizabeth plant, conferring with Singer at least two or three times a week under the June 18, 1964 contract, this liaison almost totally ceased after Singer entered the December 21, 1964 contract even though under the Technical Services Contract Perrino and Perma remained obligated (at no extra cost) to confer with Singer about the development of the anti-skid unit. When the Technical Services contract expired it was not renewed but thereafter Perrino continued to make technical suggestions to Singer.

In June 1965, Singer through Romel and his staff were conducting road tests on the Perma device. These tests were conducted on a completed but unused section of Interstate Highway 295.

VIII.

SINGER'S DECISION TO ABANDON THE CONTRACT

At about this time, corporate politics inside Singer called for a shakeup in management. Apparently there had also been some grumbling from corporate headquarters

Appendix G

about the non-profitability of the Perma project. Finally, Alfred DiScipio was named as corporate vice-president in charge of Consumer Products. Among the many product lines under Mr. DiScipio's direction was the Perma Anti-Skid Device program.

DiScipio, with some of his staff, visited the Elizabeth plant to review production of all product lines manufactured there. In connection with the review the group from corporate headquarters went to view the road tests of the Perma device being conducted at the Interstate Highway.

A car was driven down the highway and subjected to a "panic" stop, first with the Perma device inactivated and then allegedly twice with the anti-skid control in operation. On all three runs the car swerved and skidded dangerously out of control.

DiScipio and his group immediately got into their own vehicles and drove away, surprisingly without even checking to see if the anti-skid had been operative or ascertaining what caused its failure.

At a meeting following the abortive demonstration, DiScipio announced that the anti-skid control was not fail-safe. He told the group that Singer would not market a product which "could leave the purchaser . . . less safe than if he hadn't elected to purchase it . . ." It must have been as clear to DiScipio's subordinates as it was to me on trial that DiScipio was enunciating an impossible standard yet apparently none of his subordinates dared to question their boss. It is my belief that DiScipio had determined to get rid of the Project on the very day he first saw it demonstrated and that he communicated this decision to his subordinates although not in so many words.

In any event, a few days later DiScipio set up a "Task Force" to study the Perma project which was chaired by

Appendix G

Burton Person, DiScipio's assistant, and, significantly, included an attorney from the staff of house counsel. Person thereafter circulated a memorandum setting out the guidelines for the work of the Task Force. The memorandum questions whether manufacturing and marketing an anti-skid device for automobiles was the type of business which was appropriate for Singer and outlined certain areas for study, including Singer's legal exposure and possible costs if the project was terminated. Technical evaluation of the device was first sought from Kloby and Romel. Romel's report dated July 22, 1965, declares "due to cost and limited personnel available, it was decided to restrict extensive experimentation to short range projects." This admission in and of itself gives a fair insight into the real efforts used by Singer under the December contract with Perma.

Within days after getting the Romel report, Person, on August 10, 1965, circulated the first report of the Task Force. Basically, it recommended the withdrawal of the device from the market; the retrieval of units already sold and in use; the termination of distributorship contracts; and an approach to Perma to "provide flexibility for Singer in regard to divestiture". Significantly, the report also directed that all letters and strategy were to be reviewed by outside counsel to Singer. At the time of the preparation and circulation of this first report, no outside engineering evaluation of the device was considered by the Task Force although it is clear that the members of the group had at the outset contemplated getting such an evaluation from the Cornell Aeronautical Laboratories and at least from Singer's own Denville Research and Development Laboratories.

Appendix G

The August 10, 1965 First Report of the Task Force sounded the death knell of any real effort by Singer to perfect and market the Perma anti-skid device. Much of what occurred thereafter was merely a charade staged in contemplation of the possibility of litigation.

On August 30, 1965, Person and Singer's attorney Boriss went to North Attleboro to meet with Perrino and other representatives of Perma. Person announced that the Perma program had been stopped since the device was not "fail-safe", which he defined as being so designed and made "so that no matter what, it must revert to the conventional braking system". Person also stated Perma had to solve the problems.

On September 9, 1965, Person wrote a letter to Perrino asserting that Singer had legal claims against Perma. This letter also stated that Singer proposed "to procure the evaluation of a qualified, independent laboratory and have in fact initiated discussion with the Cornell Aeronautical Laboratory". The letter failed to state that Singer had decided against having Cornell do such an evaluation.

In fact, Person had, on September 3, 1965, requested from Singer's own Denville Research and Development Laboratory a report on whether the anti-skid device was fail-safe. The device as submitted to the Denville scientists and engineers contained the transfer valve. The Denville report as finally submitted is dated November 9, 1965. The contents of that report are extremely significant but they will be outlined below.

Meanwhile, Romel and his staff at the Elizabeth Singer plant kept searching for a quick solution to the problems of the anti-skid device. I can characterize these efforts only as being abysmally inept. The proposals generally ignored

Appendix G

fundamental engineering concepts. For example, to minimize hysteresis (sticking) in the rotary valve, Romel experimented with a larger rotary valve, thus increasing the area where friction would occur with concomitant aggravation of the fundamental sticking problem.

At the same time, Perrino had also attacked the "fail-safe" problem and by early November had come up with a set of proposals including a bleeder hole to the back of the Perma-Vac which would restore brakes if vacuum was present longer than a pre-determined time; a variable displacement piston to increase output pressure; and a vacuum time delay device which would turn off the device after a pre-determined time. Perrino called the last proposal a fail-safe for the fail-safe.

On November 4, 1965, Perrino called Person and gave him a brief description of his proposals and agreed to send him a schematic of the devices. He also called Romel and described the proposals to him and likewise agreed to send Romel a schematic.

Without seeing the drawings, Romel, in a conversation with Person, stated his opinion that the proposals advanced by Perrino would not work.

Romel did not get the drawings until November 10, 1965, although Person, who could not judge the devices on his own, did receive the schematics on November 9, 1965. On November 9, 1965, Person also received the report of the engineering analysis from Singer's Denville Research and Development Laboratory. This report described the work by Singer at Elizabeth as "modest", and concluded that the device was not fail-safe because of its vacuum dependence caused by the transfer valve (induced by Romel to save inventory). The report further stated that a redesign pro-

gram estimated to cost $30,000 could overcome this problem. The defendant did nothing to implement this proposed redesign program.

On the same day as Person received the Denville report and Perrino's proposal, he submitted a Task Force report to DiScipio which formally recommended the divestiture of the Perma program. That night DiScipio and Person met and DiScipio orally agreed to the divestiture. Two days later, DiScipio gave formal approval to the Task Force Report but noted that a reserve of $2,000,000 should be set up instead of the $1,500,000 recommended in the report.

Person then set up a meeting with Perrino on November 22, 1965, in Providence, R. I. There he handed Perrino a letter dated the same day which basically rejected Perrino's ideas to make the anti-skid device more "fail-safe". Person, when questioned about Singer's real purpose, told Perrino, "Very bluntly, Frank, we do not want to be in the brake business—our people at Elizabethport should not have gotten into the brake business." Person tried to get Perrino to change the December 21, 1964 contract but Perrino refused and threatened to bring this lawsuit.

After the November 22, 1965 meeting, this litigation loomed and nothing much of what was done by Singer is of much import. Of course, Singer tried to cut its losses by attempting to sell the device. For some reason, perhaps as an attempt to cloak what Singer recognized was a breach of its contractual obligations, Romel continued working on the Perma project with his curtailed staff. He spent most of his time until January 26, 1966, prototyping the device for new model cars, i.e., measuring the lengths of vacuum hose, speedometer cable, etc., for the changed models.

On January 26, 1966, Singer finally abandoned all pretense and abandoned any effort to perfect the device.

IX.

THE COUNTERCLAIM AND AFFIRMATIVE DEFENSE OF FRAUDULENT MISREPRESENTATION

Although the Post Trial Brief submitted by the defendant lacks definition of exactly what it relies on in support of its counterclaim and affirmative defense, it is clear that the claims may be broken into the following three categories: (1) perfection and testing; (2) performance; and (3) fail-safety.

Singer claims that Perma and its representatives misrepresented each of these areas in inducing the defendant to enter the December 21, 1964 contract.

[2] Before turning to the specific allegations, it may be well to set out the elements required to prove fraudulent misrepresentation. Basically they are: (1) that material representations were made by one party to a contract; (2) which representations were false; (3) and were made with the requisite degree of scienter (or knowledge of their falsity); and (4) which were relied upon at the time of entry into the contract by the other party thereto. *Daly* v. *Wise*, 132 N.Y. 306, 30 N.E. 837 (1892); *Becker* v. *Colonial Life Insurance Company*, 153 App.Div. 382, 138 N.Y.S. 491 (2d Dept. 1912).

(1) *Perfection and Testing*

It cannot be disputed that the promotional movie shown to Singer executives at the Perma plant in February 1964

Appendix G

and then again at the Singer Elizabeth facility in April 1964 represented that the Perma anti-skid device was a "perfected, patented device". Such representations were apparently repeated by Perrino to Romel during the period from June 1964 to December 21, 1964, the date of the contract.

Perrino, on the other hand, claims that he meant that the device was "workable, useable and marketable".

[3] It is clear to me that the statement in the movie was mere "puffing" and was accepted as such by the executives of Singer. Singer, by its experience manufacturing and testing the device under the June 18, 1964 contract, certainly cannot claim reliance on this statement nor on the representations by Perrino. I have already detailed that changes were made in the device by Romel prior to the December 21, 1964 contract.

[4] I find that it is totally incredible to believe that Singer relied on these statements when it entered the December 21 contract. If it had, then certainly Singer would never have entered the Technical Services Contract with Perma which looked to perfection of the device.

[5] As to the contention that Singer considered the anti-skid device as "fully tested" and relied on the plaintiff's alleged statements to that effect in entering the December contract, we need look to only two Singer documents to give the lie to this. The first is Romel's memorandum of September 17, 1964 (set out above at page 888), which calls for further testing. The second is the Hill Report which recites in Exhibit 1 thereto the "Results of Engineering Tests of the Perma Anti-Skid Control" where 6 out of 7 tests show that "Reliability of Unit" was not tested and where 5 out of 7 show that the device was not totally acceptable.

Appendix G

The lack of any scintilla of proof of reliance on the part of Singer on any of the alleged misrepresentations must doom this allegation.

(2) *Performance of the Anti-Skid Device*

It is interesting to note that Singer abandoned many of its claims of misrepresentation but has half-heartedly consigned to footnotes in its Post Trial Brief (pp. 6 and 17) certain allegations of fraudulent misrepresentation, the chief among which are that the device provided "shorter stopping distances" and "modulated in accordance with a graph on page 4 of Report No. 13 of Motor Vehicle Research of New Hampshire".

[6] Again, even if these statements were made by plaintiff (which I doubt), there is positive evidence that Singer could not have relied on them. Once again, this evidence is found in the Hill Report where Exhibit 1 shows that longer stopping distances occurred with the Perma anti-skid device and that the device "cycled through this lock-roll-lock-roll condition about *four* times a second . . ." and thus could not be said to modulate.

In the face of the Hill Report, which was supplied to Singer management at least one week prior to entering the December 21 contract, how the defendant can claim reliance on these alleged misrepresentations is beyond my ken.

The other allegations about misrepresentation of performance are so without merit as to preclude any discussion of them in this opinion.

(3) *Fail-safety*

Singer has defined "fail-safety" as follows:

> "We do not regard a device as failsafe unless failure of the device regardless of cause or probable fre-

> quency of a particular type of failure, does not impair the utility of the underlying system to which it is connected."

Its own expert has totally rebuffed Singer's definition of "failsafe", stating that such a standard is almost impossible of attainment. I admit that I can think of only one mechanical device which might meet this test: a wedge—the simplest tool known to man. It is important to note that, according to Singer's own expert, there has never been an anti-skid system marketed in the United States that satisfied the definition of failsafe advanced by Singer.

[7] It is uncontroverted that Perma represented to Singer that the "anti-skid" device in question had "fail-safe features" which, if the device malfunctioned, would return a car equipped with the device to its underlying braking system. But to torture this into the absolute "failsafe" advocated by Singer is to warp the words used by Perma representatives and to wrench a new meaning from them heretofore unknown to semantics. I find that there was no misrepresentation by Perma in this respect.

[8] And even if there was a misrepresentation, there was no reliance on it by Singer. During the period from June through December 1974, the personnel at the Elizabeth Singer plant encountered any number of failure modes in the Perma device. They knew on December 21, 1974 that the anti-skid control could not meet the standard now advanced by Singer.

Indeed, it appears clear to me that these issues were really a smoke screen to needlessly delay the resolution of this litigation and to harass the plaintiff and this Court. Thus, I find the counter-claim and affirmative defense to be totally sham as a matter of fact.

X.

THE DECEMBER 21, 1964 AGREEMENT WAS A "BEST EFFORTS" CONTRACT WHICH SINGER BREACHED

Singer contends that the contract in question was merely an assignment of patents, which contract would not require any effort on the part of the assignee to perfect the device, citing *Eclipse Bicycle Co.* v. *Farrow,* 199 U.S. 581, 26 S.Ct. 150, 50 L.Ed. 317 (1905) and other such cases.

In so doing, the defendant completely ignores the facts. This Court will not follow Singer down such a totally ignominious path.

[9] The contract before this Court is not merely an assignment of patents. Rather, clearly implied in the contract is the intention that Singer would use its best efforts to perfect and market the device.

Though the words of the contract do not spell out this obligation, the circumstances leading to the signing of the contract mandate such an implied obligation. *See Wood* v. *Lucy, Lady Duff Gordon,* 222 N.Y. 88, 118 N.E. 214 (1917); *Eastern Electric, Inc.* v. *Seeburg Corp.,* 427 F.2d 23, 26-27 (2d Cir. 1970); 3A Corbin, *Contracts* § 562 (1960). It is true that Perrino testified that he "did not discuss anything about perfecting the device" at the time he entered the contract. But it is clear that the perfection and marketing of the device was the heart of the December 21, 1964 contract.

To reiterate what is said in Section V of this opinion: Perma at the time it entered the contract had a negative

balance sheet with a number of large outstanding debts, since few of the anti-skid devices were sold between June and December 1964. The reason that there were so few sales was that imperfections had been discovered in the device. Singer and Perma had been working to resolve these imperfections. Singer offered its purported engineering expertise to perfect the device in return for a contract which did not even guarantee a minimum patent royalty.

Singer knew that the device was still to be perfected for why else would it have entered into the Technical Services Contract with Perma? The Singer personnel discovered all of the difficulties which prevented any meaningful sales of the device under the June contract. They knew of the problems with the anti-skid and necessarily knew that it had to be perfected.

Since the December 21, 1964 contract which Singer foisted on Perma does not disclose the efforts Singer was to expend on perfecting the device, it must be assumed that it was a "best efforts" contract, i. e., as Judge MacMahon indicated, that: "Singer use its best efforts for a reasonable time . . . to perfect the product under all the circumstances." 308 F.Supp. at 749.

[10] Did Singer use its "best efforts" to perfect the device? Clearly, as I set out above, its efforts were at best inept and certainly not "best efforts". There is no doubt Singer could have accepted Kelsey-Hayes' offer to analyze and test the device. It did not do so. There is no

doubt that Singer could have turned the program over to its Research and Development Laboratories. It did not do so. There is no doubt that it could have hired an engineer with experience in the automotive or brake field. It did not do so.

There are any number of reasonable things which Singer could have done to perfect the device without unreasonable cost or effort. It did not do so.

Did Singer use its best efforts to perfect the Perma Anti-Skid device? It did not do so.

XI.

SINGER'S CLAIM THAT THE PERMA ANTI-SKID DEVICE WAS WORTHLESS AND COULD NOT BE PERFECTED AND MARKETED

Singer clearly set forth in the Pre-Trial Order that it considered the Perma Anti-Skid was worthless since it could not be perfected. As part of its main case to rebut this contention, Perma offered the testimony of Daniel Goor and Andre L. DeVilliers.

Both Mr. Goor and Mr. DeVilliers were deeply involved in the development and perfection of the Kelsey-Hayes anti-skid device. Goor, although a consultant, was in charge of the project for a considerable period of time. DeVilliers was an engineer who ran a number of computer simulations on the Kelsey-Hayes device to assist in its perfection to the point that it became marketable.

Since Funds were not available to plaintiff to run empirical tests of the Perma Anti-Skid Device, with alterations of the various components, the plaintiff retained DeVilliers to do computer simulations of the device with the possible

changes in components. DeVilliers, using the LaGrange equations (which are readily available in standard university textbooks—so much so that the equations were not totally foreign ground to me) produced certain computer simulations. For those unfamiliar with computers, it must be noted that in this context, simply put, a computer is but calculators with a giant "memory" and the simulations the computer produces are but the solution to mathematical equations in a "logical" order.

[11] On the basis of the computer simulations produced by DeVilliers, Goor testified that the Perma Anti-Skid Device could be made into a marketable product. Given the state of the art in 1964 and 1965, and even considering the electronic improvements in the anti-skid devices commercially sold today, I find as a fact that the Perma Anti-Skid Device could have been perfected and made marketable with the proper engineering work done.

To counter this evidence, The Singer Company produced two main witnesses. Professor Rabins of Polytechnic Institute of New York, testified, on a theoretical plane, that the Perma Anti-Skid Device was worthless. Professor Rabins also testified that he based his opinion on a sample given to him, which sample was not even offered in evidence. Under questioning by me, he admitted that he had never seen the plans and specifications for the device nor any of the models introduced into evidence.

What Professor Rabins saw, measured and based his calculations on is totally unknown to this Court. Consequently, most of his testimony must be disregarded.

[12] Stanley I. MacDuff also testified for the defendant Singer as an "expert". An expert witness is produced by a

party to give the Court some insight into a technical area. As such, his testimony is most useful if it is impartial. An expert's testimony, like that of any other witness, can and should be tested for credibility by the trier of fact. See generally *Fortunato* v. *Ford Motor Co.*, 464 F.2d 962 (2d Cir.), *cert. denied*, 409 U.S. 1038, 93 S.Ct. 517, 34 L.Ed.2d 487 (1972); *Manning* v. *New York Telephone Co.*, 388 F.2d 910 (2d Cir. 1968); *Scott* v. *Spanjer Bros., Inc.*, 298 F.2d 928 (2d Cir. 1962).

Stanley I. MacDuff was far from impartial and his advocacy (he is a lawyer) of his client's position was such that any statement emanating from him was immediately suspect. The suspicion of MacDuff's opinion is compounded when we realize that he, while employed by the Bendix Corporation, had totally turned down the Perma device. Not only were his views slanted by his present employment by the defendant, but they were also slanted by his prior rejection of the device on behalf of his former employer who now pays his pension.

MacDuff testified on direct that a mechanical (as opposed to an electronic) sensor on anti-skid devices made them worthless. Yet MacDuff admitted that at least one anti-skid [device] had been marketed which had a mechanical sensor. MacDuff's judgment regarding the perfectibility and marketability of the Perma device becomes even more suspect when viewed in the light of his admission that he personally tried to sell to various car manufacturers a totally mechanical anti-skid device produced by a foreign subsidiary of his former employer.

Viewing all of the evidence, I am convinced that the Perma Anti-Skid control was perfectible and could have been marketed. This leads me then to the question of damages.

Appendix G

XII.

PERMA'S DAMAGES

Singer cites case law for the proposition that a patent assignor cannot recover for the assignee's failure to fulfill an implied "best efforts" obligation where the patented device is not commercially useful. In *Kraus v. General Motors Corp.*, 120 F.2d 109 (2d Cir. 1941) commercial useability was actually made a part of the licensing contract. In *Peck v. Shell Oil Co.*, 142 F.2d 141 (9th Cir. 1946), the defendant's inability to develop a marketable product constituted failure of consideration such that the licensing agreement was rendered unenforceable. The Perma device, defendant continues, is not useful by reason of its imperfectability as a matter of engineering principle. Even if the cited cases stood for the broad proposition of law urged by the defendant, the argument would fail since I have found the device to be perfectible.

[13, 14] A plaintiff is entitled to the reasonable damages naturally flowing from the defendant's breach of contract. *For Children, Inc. v. Graphics Int'l, Inc.*, 352 F.Supp. 1280 (S.D.N.Y.1972). The measure of damages to which a plaintiff is entitled as a result of such a breach has also been described as the amount necessary to put the plaintiff in as good a position as he would have been if the defendant had abided by the contract. *Hutchins v. Bethel Methodist Home*, 370 F.Supp. 954 (S.D.N.Y.1974).

[15, 16] Although lost profits in a new venture are not ordinarily recoverable (*Cramer v. Grand Rapids Show Case Co.*, 223 N.Y. 63, 119 N.E. 227 (1918)), they may be awarded where: the loss of prospective profits are the direct and

Appendix G

proximate result of the breach; profits were contemplated by the parties when they entered the contract; and there is a rational basis on which to calculate the lost profits. *For Children, Inc. v. Graphics Int'l, Inc.*, 352 F.Supp. 1280, 1284 n. 16 (S.D.N.Y.1972); cf. *Flexitized Inc. v. National Flexitized Corp.*, 335 F.2d 774 (2d Cir.), *cert. denied*, 380 U.S. 913, 85 S.Ct. 899, 13 L.Ed.2d 799 (1964).

In *For Children, Inc. v. Graphics Int'l, Inc., supra*, the plaintiff contracted with the defendant for the manufacture of books with a pop-up feature. In placing its order the plaintiff relied on defendant's expertise as a pop-up printer and designer. A large percentage of the books actually supplied to the plaintiff for marketing were defective and the plaintiff properly rejected them despite the defendant's protestations that a 15 per cent margin of error was necessary. Judge Weinfeld rejected defendant's claims since under the contract the defendant had taken responsibility for the design and engineering of the books without qualifying this responsibility with any provision for a margin of error. Although the plaintiff's venture was a new one, the court found that: the parties had contracted with an eye to plaintiff's marketing the product; the product was ready to be marketed; and there was a reasonable probability that, considering all the circumstances, 75 per cent of the books would have been successfully marketed.

In the case at hand the defendant assumed a greater responsibility in the new venture. Nevertheless, Singer's claim of imperfectability of the device is analogous to the defense raised in *For Children, Inc.* (that a 15 percent margin of error was insurmountable) and has been similarly rejected. Moreover, had Singer fulfilled its obligations under the December contract, the anti-skid device would have proceeded to market as anticipated.

[17] The remaining determination then is whether damages here are altogether too speculative to assess, or whether there is some reasonable basis on which damages can be computed. It has been held repeatedly that where the defendant renders the determination of damages difficult, he must bear the risk of uncertainty created by his own conduct. *Story Parchment Co.* v. *Paterson Parchment Paper Co.*, 282 U.S. 555, 563, 51 S. Ct. 248, 75 L.Ed. 544 (1931); *Eastman Kodak Co. v. Southern Photo Co.*, 273 U.S. 359, 379, 47 S.Ct. 400, 71 L.Ed. 684 (1929); *Autowest, Inc.* v. *Peugot, Inc.*, 434 F.2d 556, 565 (2d Cir. 1970); *For Children, Inc. v. Graphics Int'l, Inc.*, 352 F.Supp. 1280, 1284 (S.D.N.Y.1972). Furthermore, the Court in *Story Parchment* defined the prohibition against an award of speculative damages as barring those damages which "are not the certain result of the wrong, not . . . those damages which are definitely attributable to the wrong and only uncertain in respect of their amount." 282 U.S. at 562, 51 S.Ct. at 250. As was said in the *Flexitized* case, *supra,* the evidence need not establish lost profits precisely to the penny as long as the evidence provides a reasonable basis for concluding that lost profits were occasioned by the defendant's breach.

The parties have suggested various alternative figures upon which damages should be computed.

It is conceded by both parties that the market for automobile parts and accessories is divided into the OEM (original equipment manufacturers) and the aftermarket (manufacturers and retailers of accessories for automobiles). The defendant offers numerous proposed findings of fact to demonstrate that the Perma device would not have succeeded in either of these markets. Numerous

proposed findings are also offered to demonstrate the relative failure of the major automobile manufacturers to market anti-skid devices as part of the original equipment on their 1969-1974 models.

Not only have such devices been unsuccessful in the OEM, but Singer also argues that the Perma device would not have been selected by the major automobile manufacturer. Singer relies on the testimony of its witness Bechtold that there is a three year development period from the year in which automotive manufacturers accept an accessory until the time they offer it as original equipment. Thus they argue that the Kelsey-Hayes device which Ford offered in 1968 was necessarily in the Ford product development cycle in 1966, when the Perma device was first to have been marketed. Singer argues that the Perma device could not have been placed on Ford cars until 1969. In any case, they contend that the Perma device would have required extensive and expensive modification in order to ready it for use on a 1967 model car. Thus they conclude that the retail price of the Perma device would have been greater than or equal to the price of the allegedly superior device which was selected by Ford.

The essence of this line of argument is that in the unlikely event that the Perma device was selected by the major car manufacturers, it would have enjoyed only limited success.

Plaintiff meets these contentions with the observation that Bechtold, on cross-examination, retreated from his testimony that the three year developmental cycle is invariable. Thus the Perma device might well have been available to and selected by the major automobile manufacturers prior to the other comparable devices. Moreover, they

point out that the unimpressive sales record of those devices that have been offered as original equipment reflects the self-evident observation made in the Hill Report that "sales volume will depend on the amount of promotional efforts."

The defendant also argues that there have been virtually no sales in the aftermarket of the comparable anti-skid devices which have been available for almost five years. Plaintiff concurs in that observation which they view as inuring to their benefit since the Perma device would have encountered no competition in the automobile aftermarket, admittedly the principal market in which the parties planned to sell the device.

Defendant's additional proposed findings that Perma had no marketing experience in the OEM or aftermarket; that Perma had responsibility under the June contract for marketing the device; and that Perma had not validly assessed the probable success of the anti-skid device in either the OEM or aftermarket are equally unavailing to defendant in its attempt to minimize damages. The first two points are irrelevant since it was Singer, not Perma, which had the responsibility of marketing the device under the December 21, 1964 contract, the relevant contract in this action. Nor was Perma obligated to assess the probability of success of the device in the OEM or aftermarket.

Defendant urges a finding that its sales projections were based totally on Perma's marketing forecasts. Under the June contract, Patten, Singer's sales manager at Elizabeth, received marketing forecasts from Perma which, when requested, he would incorporate into internal Singer memoranda. In evaluating the merits of what was to become the December contract, Kloby relied, it is urged, on the

same sales projections which Perma had supplied under the June contract. Kloby's failure to evaluate potential sales independently can, however, be interpreted as an endorsement of Perma's sales projections.

In any case, these figures were accorded sufficient weight by the defendant to form a basis upon which Singer decided to take over marketing of the device. Similarly, the Hill Report to Kloby, discussed *supra* at pp. 888-889, 895, cited by the defendant to show the lack of interest in the device among major automobile manufacturers, also noted a large potential for sales of the device in the aftermarket. At the same time that it relies on this report to substantiate the bleak prospects for the device in the OEM, the defendant challenges the foundation for the report, rendered at its own request, in an attempt to diminish the impact of the report's enthusiastic evaluation of the device's sales potential in the aftermarket.

In view of the fact that this report is dated December 14, 1964, only a week before the defendant entered the December 21, 1964 contract in which Singer undertook marketing responsibility for the device, it is a fair conclusion that the aftermarket sales projections were perceived by the defendant as justifying the undertaking despite the limited sales potential in the OEM.

In *Autowest, Inc.* v. *Peugot, Inc.*, 434 F.2d 556 (2d Cir. 1970), the evidence admitted on damages for the defendant's wrongful termination of an automobile distribution franchise consisted of sales projections prepared by plaintiff's witnesses, both of whom had had years of experience in the industry. The figures were "the product of deliberation by experienced businessmen charting their future

course." 434 F.2d at 566. The fact that the projections were prepared by defendant's employees in deciding whether or not to proceed with a course of business was found to increase their reliability since they were not "mere 'interested guess[es]' prepared with an eye on litigation." 434 F.2d at 566.

[18] These same indicia of reliability are present in the figures prepared by Kloby based upon which Singer entered the December 21, 1964 contract. Kloby, experienced in market evaluation and surveys, compiled a report at Mr. Morris' request evaluating the proposal that Singer take over marketing responsibility for the device. The defendant relied upon this report in deciding to enter the December contract. Clearly these projections, prepared by the defendant's market expert, were not put together with an eye to litigation. The argument that the figures merely parrot the reports of Perma to the Elizabeth staff has been dealt with above. If Singer's experts judged them sufficiently reliable to justify entering a contract without further market analyses, then I have no reason to challenge their accuracy.

For the reasons recited, I find that the so-called Kloby figures, which projected sales for the first five years of the ten year contract, provide the best basis on which to compute damages. According to these figures 150,000 units were to be sold in the first two years that the device was marketed with 200,000 units being sold in each of the next five years. These figures are variously substantiated by: (1) Kloby's report to Morris on the feasibility of taking over marketing of the device, which report Morris forwarded to Mr. Murphy in Singer's New York office, who, in

turn, reported to his superior Mr. Hough; (2) Hough's December 11, 1964 memorandum to his superior, Mr. Kircher, recommending favorable action on the marketing proposal; (3) a December 21, 1964 internal Singer memorandum for Mr. Torello to Mr. Marsden; and (4) a January 18, 1965 distribution contract between Singer and Monitor Enterprises, Inc. It is eminently rational to project that the 200,000 units per year level which Singer expected to attain after the first two years would at least have been maintained for the second five years of the ten year contract.

Alternative bases for the computation of damages have been offered by the parties and are rejected. The higher figure of 250,000 units for the first two years, which is suggested by the plaintiff, is derived from (1) March 13, 1964 minutes of a Singer meeting on the feasibility of entering the June contract for manufacture of the device and (2) the June 18, 1964 contract itself. The figures relied on by Singer in entering the manufacturing contract were out of date by the time of the December contract and cannot bind the defendant.

Nor will I base damages on the number of units (approximately 139,000) which Perma had contracted to sell to distributors prior to the December contract. The defendant disputes the reliability of these contracts on the grounds that the plaintiff failed to prove the size, financial position, and market experience of the various distributors. Plaintiff meets this argument with the observation that in 1965 Patten and Kloby undertook negotiations with several of the distributors in order to induce them to relinquish their contract rights so that Monitor Enterprises, Inc. (one of the distributors) could become the exclusive distributor for

the device in the United States. In any case, at the time it entered the December contract Singer was aware of these agreements and necessarily considered them as a factor in formulating the sales projections on which I have determined to base the damages.

[19] The defendant's suggested lower figures of 100,000 units for the first two years and none thereafter is equally unpersuasive. The 100,000 figure is derived from the Hill Report* of December 14, 1964 which predated several of the documents listed above which demonstrate that Singer entered the December contract with the higher figures in mind. Similarly, limiting damages to two years ending in the fall of 1968 when the Kelsey-Hayes device became available is unacceptable since according to the defendant's own proposed findings of fact the Kelsey-Hayes device was never promoted in the aftermarket and would, therefore, have posed no threat to the Perma device which was to have been sold predominantly in the aftermarket.

[20] The royalties were to be paid, according to the terms of the December 21, 1964 contract, as follows: (1) as to sales in the aftermarket, none on the first 36,700 units, 10% of the factory invoice price for a period of 5 years, and 5% of the factory invoice price for an additional 5 years; (2) as to sales in the OEM, 5% of the factory invoice price for a period of 10 years from the date of the contract; (3) as to royalties received by Singer on the manufacture and use of the device by licensees in the OEM, 25% of such royalties for a period of 10 years from the date of the con-

* Apparently the defendant views this document as a mixed blessing which it will endorse when favorable, but will ignore when damaging.

tract. Since damages on this last basis would be too speculative, no such licensing contracts having been negotiated, damages will be computed solely on the first two provisions for direct sales of the device.

[21] The parties agree that the device was first to have been marketed in 1966, thus damages will be assessed beginning in that year. It is clear from the proof that the projected sales for the first two years were to be made solely in the aftermarket, therefore the 10% royalty is appropriate for that period. As to the remaining years in the first five year portion of the December 1964 contract, it would be equitable to apportion the damages for sales in both the aftermarket and the OEM. There being no adequate proof on which to make such an apportionment, a compromise royalty of 7½% will be applied to sales for those 2 years.

According to Singer's January 18, 1965 contract with Monitor, the factory invoice price was to be $51. Additional factors which should be taken into account are simple interest (New York CPLR § 5001) as fixed by New York CPLR § 5004 and market expansion as reflected in the increased auto registration for each of the relevant years.

[22] The damages will not reflect a factory invoice price adjustment based on inflation. Such an adjustment could only be made after similarly adjusting manufacturing costs upon which there is inadequate proof. Moreover, after all the necessary adjustments were made it is unlikely that the result would be significantly altered.

Appendix G

Computation of Damages Exclusive of Interest to be Computed by the Parties in the Proposed Judgment

1965	—		
1966	50,000 −36,700 13,300 ×$5.10 $67,830	(units)	(10% of invoice price)
1967	102,600 ×$5.10 $523,260	(units)	(including market growth based on increased registration)
1968	210,907 ×$3.83 $807,773.81	(units)	(7½% of invoice price)
1969	218,921 ×$3.83 $838,467.43	(units)	
1970	226,583 ×$2.55 $577,786.65	(units)	(5% of invoice price)
1971	232,248 ×$2.55 $592,232.40	(units)	
1972	243,164 ×$2.55 $620,068.20	(units)	
1973	251,675 ×$2.55 $641,771.25	(units)	(based on projected market increase derived from the average market increase from 1966-1972)
1974	260,484 ×$2.55 $664,234.20	(units)	(based on projected market increase)

Appendix G

CONCLUSION

Judgment will enter for the plaintiff in accordance with this opinion along with interest to be calculated at the legal rate on a monthly basis from the date of the incurrence of the damages awarded. The defendant is to bear the entire costs.

Settle judgment on notice.

Appendix G

APPENDIX "A"

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet 1

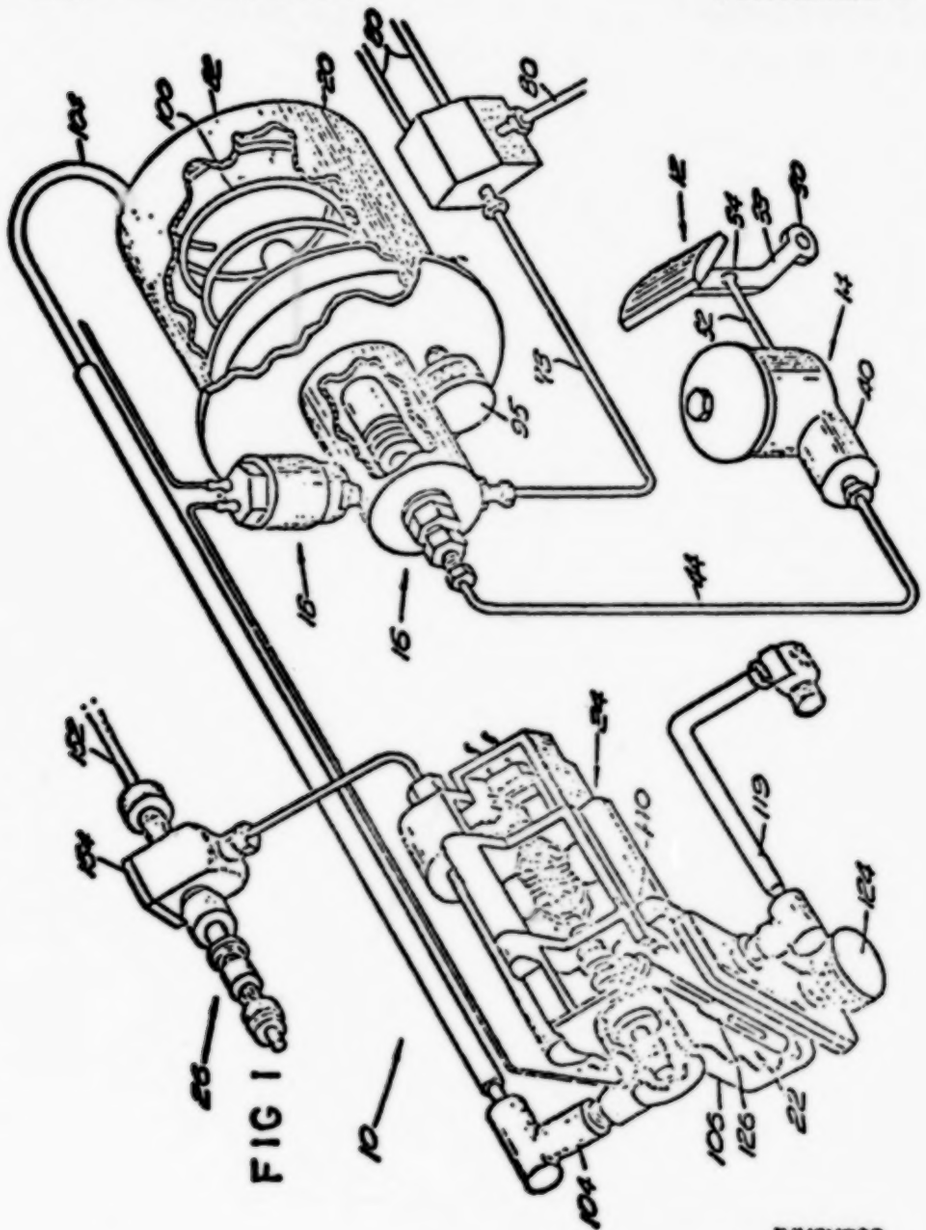

FIG 1

INVENTOR
FRANK A. PERRINO
BY
Marshall J. Breen
ATTORNEYS

Appendix G

APPENDIX "A"—Continued

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet 2

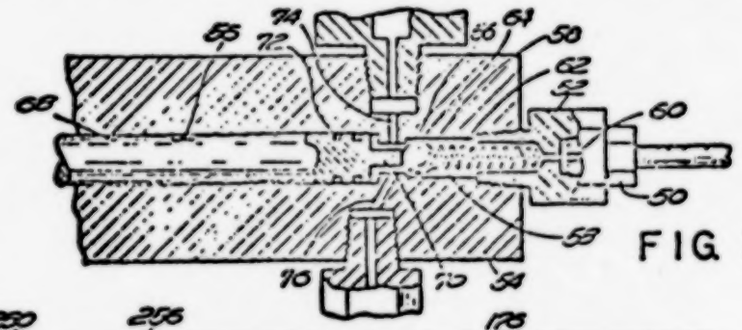

FIG 3

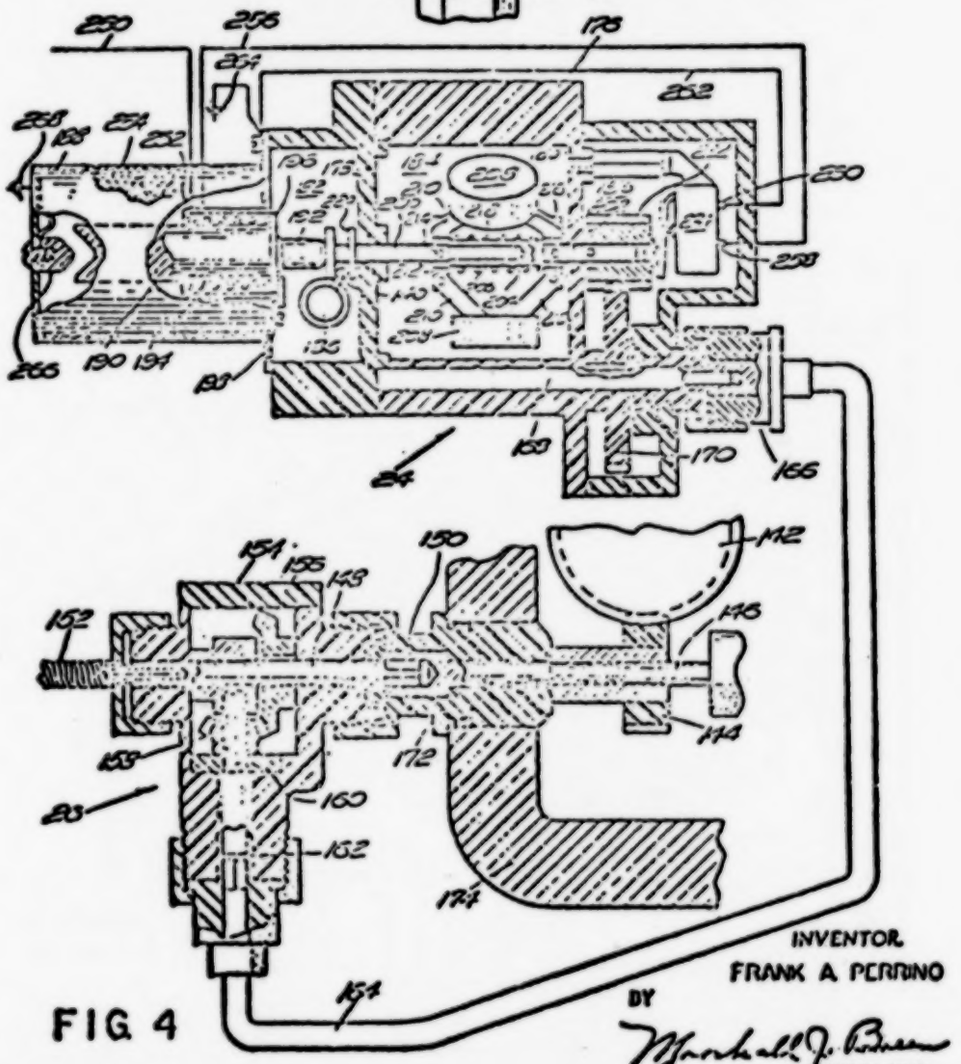

FIG 4

INVENTOR
FRANK A. PERRINO
BY
Marshall J. Breen
ATTORNEYS

APPENDIX "A"—Continued

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet 3

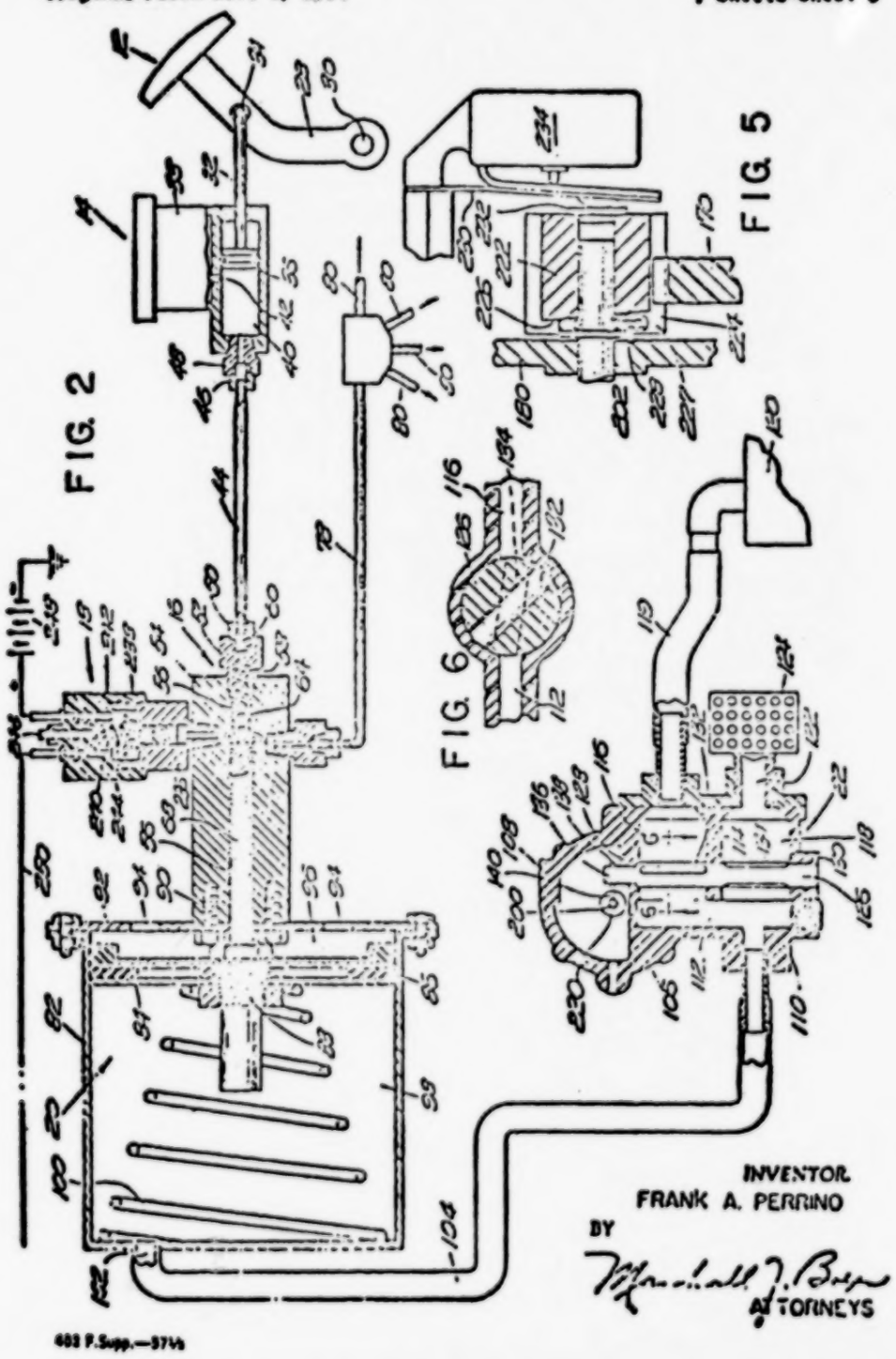

FIG. 2

FIG. 5

FIG. 6

INVENTOR
FRANK A. PERRINO
BY
Marshall J. Bauer
ATTORNEYS

APPENDIX "A"—Continued

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet

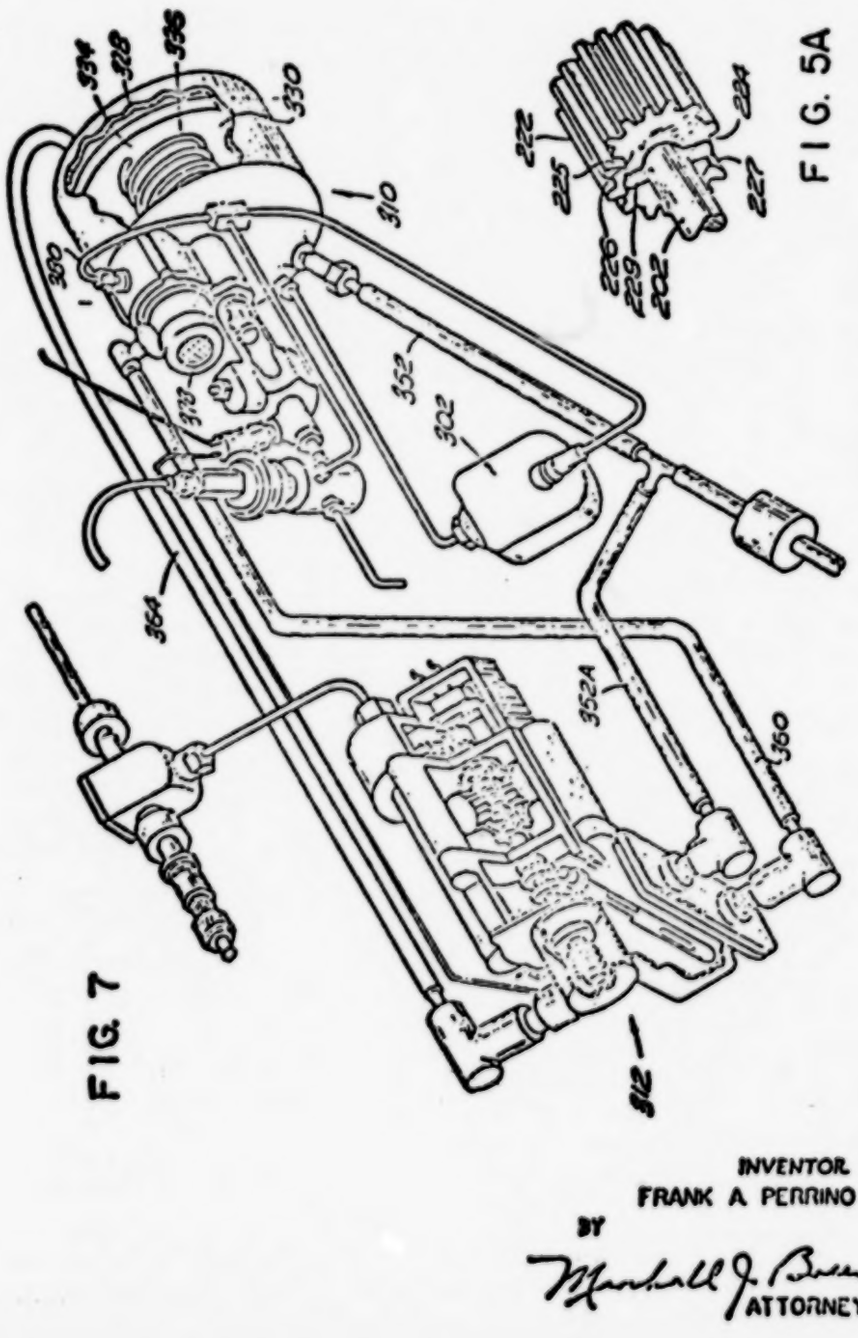

FIG. 5A

FIG. 7

INVENTOR
FRANK A. PERRINO
BY
Marshall J. Bauer
ATTORNEYS

Appendix G

APPENDIX "A"—Continued

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet 5

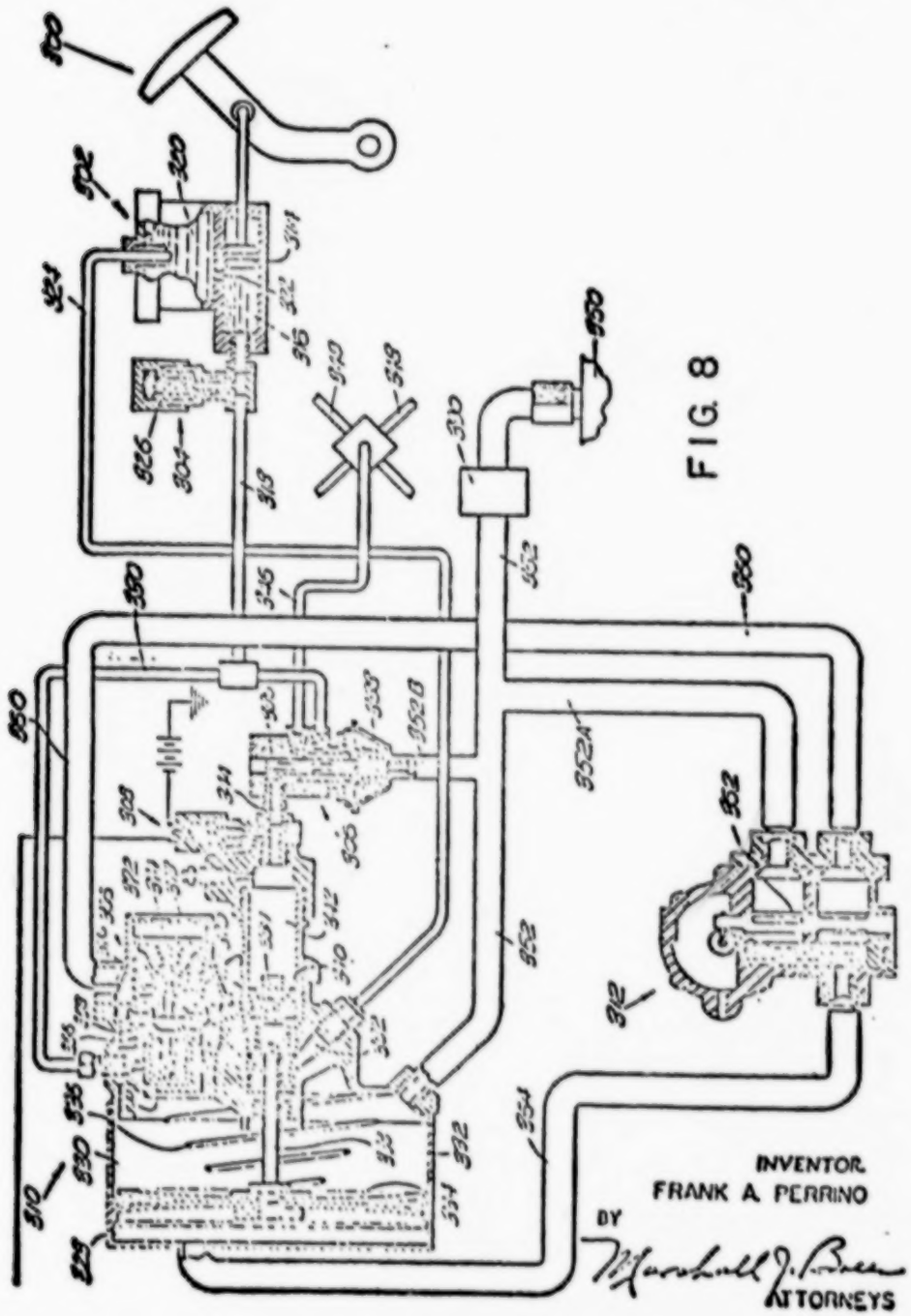

FIG. 8

INVENTOR.
FRANK A. PERRINO
BY
Marshall J. Breen
ATTORNEYS

Appendix G

APPENDIX "A"—Continued

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet 6

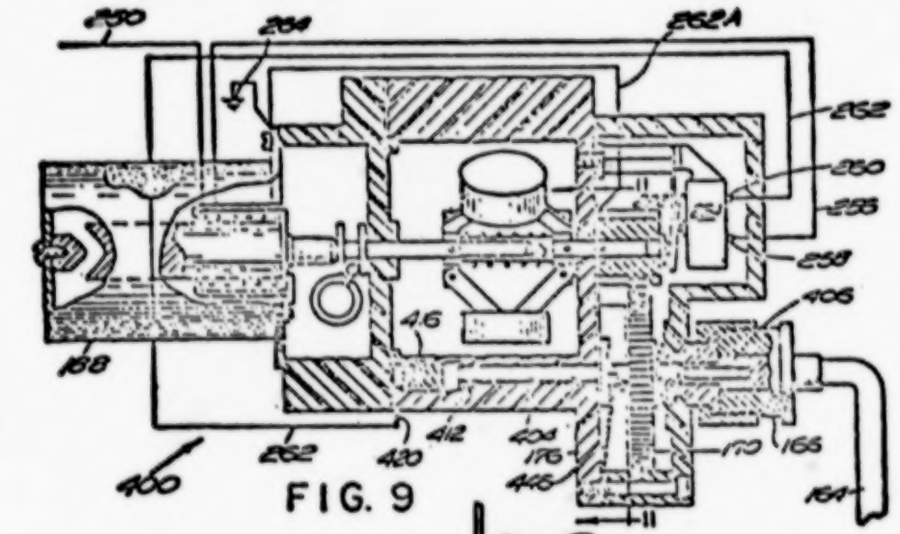

FIG. 9

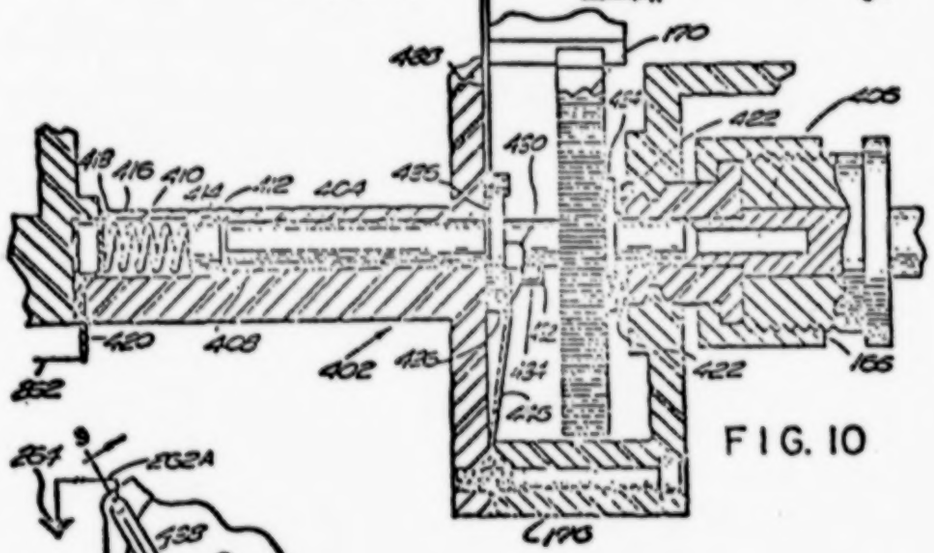

FIG. 10

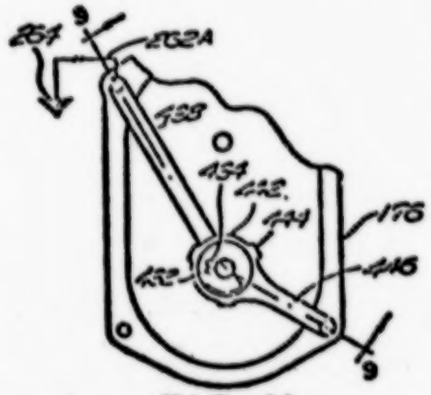

FIG. 11

INVENTOR.
FRANK A. PERRINO
BY
Marshall J. Breen
ATTORNEYS

Appendix G

APPENDIX "A"—Continued

Nov. 11, 1969 F. A. PERRINO 3,477,765

ACCELERATION RESPONSIVE DEVICES FOR ANTI-SKID UNITS

Original Filed Nov. 2, 1964 7 Sheets-Sheet 7

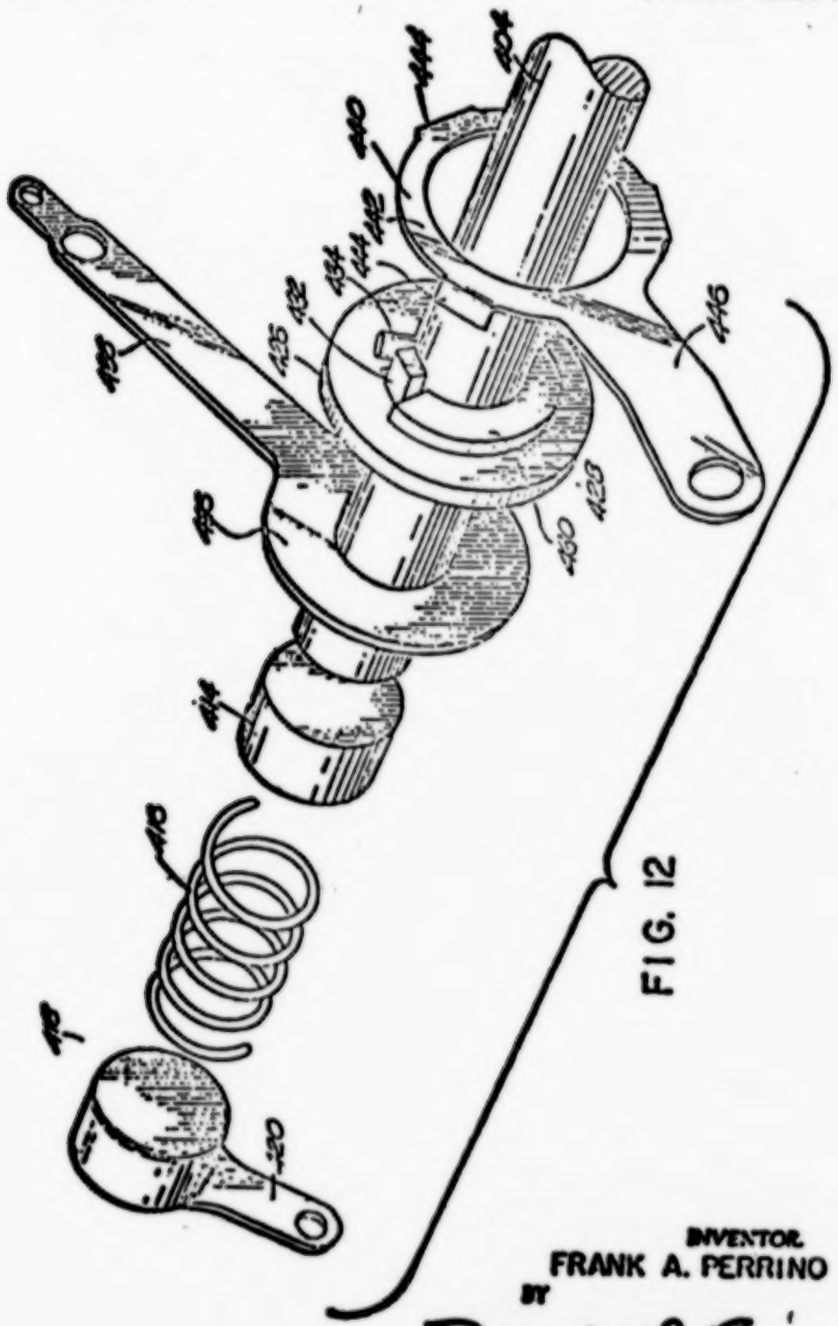

FIG. 12

INVENTOR.
FRANK A. PERRINO
BY
Marshall J. Breen
ATTORNEYS

Appendix G

APPENDIX "B"

WILLIAM E. HILL & COMPANY, INC.
Management Consultants
New York London Brussels

640 Fifth Avenue
New York 19
Judson 2-5959
Cable: Hillwamao New York

December 14, 1964

Mr. Robert A. Kloby
Director of Forward Planning
The Singer Company
Elizabeth Plant
321 First Street
Elizabeth, New Jersey

Dear Mr. Kloby:

In accordance with your assignment, a preliminary survey of short-term prospects for the Perma anti-skid control has been completed. The following report summarizes the findings and conclusions of this survey, which were reviewed with you November 11 in Elizabeth.

Sincerely yours,

William E. Hill & Company

Appendix G

APPENDIX "B"—Continued

The Singer Company

PRELIMINARY MARKET SURVEY

PERMA ANTI-SKID CONTROL

The objective of this project has been to assist management in determining the short-term market prospects for the Perma anti-skid control. *Although determination of sales potential was the principal objective, the issue of product performance arose during the course of the project as an important consideration, and the subject has been covered in the report.*

Following orientation meetings with Singer and Perma management, the conduct of the survey included meetings with key industry sources such as automotive brake and safety engineers, auto manufacturer marketing personnel, fleet operators and safety engineers, a fleet operation consultant, specialty automotive part distributors, new-car dealers, and several Perma distributors.

The principal findings and conclusions resulting from this preliminary study are summarized below.

1. Automotive engineers have recognized for many years that it is possible and highly desirable to improve the braking operation by adding to the vehicle braking system a mechanism that would sense an impending locked-wheel condition and prevent the brakes from coming to a completely locked condition. A system which could do this would allow the car to be stopped somewhat faster and give greater steering control in a panic stop situation. The Perma control

Appendix G

APPENDIX "B"—Continued

is one of several systems that automotive engineers have evaluated in recent years in their search for a system which will give the desired improvement in braking performance at a reasonable price.

2. ***The Perma anti-skid control falls short of meeting requirements of automotive engineers, and does not provide the improvement possible in theory.*** The consensus of the many engineering tests that have been run on the unit indicate that the Perma control, as compared to a panic or locked-wheel stop, gives improved steering control, *but requires a greater distance to come to a complete stop.* The automotive brake and safety engineers who have reviewed its performance do not agree on the value of the Perma anti-skid control, and are about evenly divided on the issue. One group believes that it is of value in that most drivers cannot handle a skid situation adequately and that the added control of the car obtained is well worth the relatively small loss in stopping distance. *The other group believes that no amount of increase in control justifies the increased stopping distance.*

3. The user aftermarket represents the only apparent short-term opportunity for significant sales volume for the Perma anti-skid control. Prospects are indicated for a sales volume on the order of 100 thousand units during the next two years, depending on sales effort.

a) The product, with its strong emotional appeal to safety, and with demonstrable characteristics,

Appendix G

APPENDIX "B"—Continued

lends itself to a consumer-directed merchandizing effort. Typical of products of this type, sales volume will depend largely on the amount of promotional effort expended.

b) *The original-equipment market represents virtually no opportunity at this time for sales of the Perma control.* In addition to the mixed opinion on its worth, this is because of the low value the automotive manufacturer places on safety equipment, considering the poor record of consumer acceptance for high-cost equipment such as the Perma control.

c) The prospects for significant sales to fleet markets are expected to be quite limited due to the highly cost-conscious nature of fleet operations. Most government fleets are subject to stringent budgetary controls with very little allowance for extras. Large professionally run private fleets subject their expenditures to careful cost analysis, and the anti-skid control can seldom be justified on a dollars and cents basis, considering the substantial investment cost in relation to reduction of accident cost.

4. To meet the sales volume which appears possible during the next two years, a strong promotional program aimed at the user aftermarket would be required.

a) An intensive promotional program would be needed, because the Perma anti-skid control is virtually unknown and would have to be introduced to

Appendix G

APPENDIX "B"—Continued

the end-user. In addition sales would represent discretionary purchases (versus replacement parts sales) and the item is costly in relation to most other auto accessory purchases.

b) A program to sell the item successfully would likely depend heavily on "high-pressure" promotional methods which include a high sales and advertising cost per unit, sales practices capitalizing on a strong emotional appeal, and perhaps emphasizing strong "personal" selling.

c) Any one of a number of channels of distribution could be effective for this product, including new-car dealers, gas stations, specialty auto accessory stores and a direct selling organization. However, to meet the desired sales volume through any one of these channels, it appears that a supporting program of advertising, demonstrations and other promotional measures would be required.

5. If the Company becomes involved in a sales program directed to the user aftermarket, management will want to recognize the possible problems which might arise, and which have been encountered by other companies in similar situations. In particular, the following points might be considered.

a) *Use of the Singer name both at dealer and user levels should be carefully controlled.* This is essential to prevent misuse of the name in relation to extravagant product claims and also to prevent association

Appendix G

APPENDIX "B"—Continued

in the user's mind with possible undesirable sales and promotional activities.

b) *Management, of course, will want to determine the legal liability which could arise from accidents where it could be claimed that the anti-skid control did not function as represented or where it may have been installed incorrectly or become inoperative.*

c) In light of Singer's dependence on an independent sales organization for marketing of the Perma control, management will want assurance that the program will not resort to the use of door-to-door sales organizations which would employ high-pressure salesmen. This in particular could result in problems possibly harmful to the Singer name and reputation.

d) The question of reliable repair service and replacement parts availability is an important one, and assurance of reliable resources in this respect will need to be considered.

The following section of this report summarizes in detail the findings of the survey.

Appendix G

APPENDIX "B"—Continued

The Singer Company

PRELIMINARY MARKET SURVEY

PERMA ANTI-SKID CONTROL

A. *Product Description and Engineering Evaluation*

1. For many years automotive engineers have recognized that it is desirable as well as possible to reduce stopping distance of a car in a panic stop by holding brakes steady just before a full locked-wheel condition and at the same time reduce the tendency for the car to spin. In recent years many of the automotive companies have evaluated systems which are able to make this improvement in braking performance at a justifiable price. The Perma anti-skid control is one of the devices which have been designed to make this improvement in braking performance. This control operates by quickly sensing a locked-wheel condition and momentarily reducing the brake line pressure to allow the wheel to rotate. The system cycles through this lock-roll-lock-roll condition about *four* times a second until the car comes to a halt.

a) In theory, by holding the wheels at a 20 percent skid, or by allowing the motion of the car to come 20 percent from skidding and 80 percent from wheel rotation, the car can be brought to a stop faster and kept under better control than in the locked-wheel condition.

b) The lack of stability, or the tendency for the car to swing around, is particularly serious in the

Appendix G

APPENDIX "B"—Continued

case of Bendix-type brakes which are self-actuating and quite sensitive to the condition of brake lining and adjustment for balanced braking. Disk brakes, which several U. S. manufacturers are offering this year as optional equipment, operate on a somewhat different principle and do not have as great a problem in braking stability as self-actuating types.

c) In addition to the evaluation made of the Perma anti-skid control, automotive manufacturers have evaluated the Lockheed and Bendix systems. Also, there is a comparable system developed in Europe which was offered on the Jaguar auto as optional equipment. The Lockheed unit operates on the basis of a small flywheel backlash operating through a pneumatic system to reduce brake pressure; the French system is a mechanical system working on each wheel.

2. A number of engineering tests have been run on the Perma anti-skid control comparing its stopping performance in terms of stopping distance and stability with the operation of the car under locked-wheel conditions. *The consensus of the tests is that the Perma control allows a car to be stopped under panic stop conditions with better control, but at the cost of greater stopping distance when compared to locked-wheel conditions.* While this conclusion is definitely substantiated by most of the results, there is some variation between the test results. The results of tests run to date have been summarized in Exhibit 1.

Appendix G

APPENDIX "B"—Continued

a) Exceptions to the above conclusions are as follows:

(1) The test results of the Motor Vehicle Research group, which were sponsored by Perma, showed that under all road conditions use of the Perma anti-skid control allowed the car to stop significantly faster than under locked-wheel conditions.

(2) In the Cadillac Division test, under glare ice road conditions the Perma control permitted the car to stop in slightly less distance than the locked-wheel situation.

(3) The Ford tests showed that the car equipped with the Perma control took longer to stop and gave no significant improvement in stability.

b) *The extent of the testing performed in evaluating the control was reviewed with the auto manufacturers' engineers conducting the tests in most cases, and the amount of time and expense involved was considerable and results are considered to be sound.*

3. There are two points of view among the engineers evaluating the Perma anti-skid control as to the value of a system which brings a car to a stop with better control but which requires greater distance to stop; the engineers are almost evenly divided for and against use of such a system.

a) *The General Motor Research Center, The Ford Advanced Design Group and Chrysler Brake Labo-*

Appendix G

APPENDIX "B"—Continued

ratory are against use of the control. They believe that nothing should be done to increase the stopping distance required under panic stop conditions, because the last ten feet may be the critical ones in a collision.

b) American Motors Safety Engineering and Cadillac Division Brake Design Group are in favor of the system. They believe that the average driver will not remember to pump his brakes under panic conditions and hence is much better off with the anti-skid control. He will have enough control to avoid most road obstructions and stay in a controlled path even though it takes him slightly longer to stop.

B. *Possible Markets for Anti-Skid Systems*

There are three distinct markets representing significant potential for products such as the Perma anti-skid control.

1. Original equipment manufacturers, represented by the major automotive companies, General Motors, Ford, Chrysler, and American Motors.

2. Fleets, including privately-owned fleets and government-operated vehicles.

3. The automotive user aftermarket, represented by the sales of parts and accessories after the car is purchased, and including accessories installed by the new-car dealer.

Appendix G

APPENDIX "B"—Continued

C. *Market Characteristics and Requirements*

Following is a summary of the key market requirements relating to automotive equipment such as the anti-skid system.

1. The automotive manufacturer has two essential requirements, dependability and value. These requirements are reflected in the typical evaluation of a possible new device; *first, assurance that the device is sound from an engineering point of view,* and secondly, consideration as to profit, which is a function of user acceptance (in terms of the added price he is willing to pay) and the added cost to the manufacturer. Safety features have typically received low ratings in relation to these criteria.

a) The automobile companies are slow to accept new accessories because of the desire to thoroughly prove out any new device for reliability. For example, the power-braking system on the Ford, similar in complexity to the Perma anti-skid control, took over two years to develop even after the basic design was well established. All new accessory designs have hundreds of thousands of miles of testing before final acceptance. In this respect the statement was made by several of the auto companies that from a reliability point of view they believe the *Perma anti-skid control is below their standards.*

b) An example of the rather low rating that auto companies put on safety items is the case of dual

Appendix G

APPENDIX "B"—Continued

brakes. This item has been put only on the Cadillac and Rambler; it permits partial brake operation even though a hydraulic line is broken. Although the cost is low, about $1.50 in manufacturing costs, other manufacturers have not added the device, primarily because they do not believe the consumer will recognize that amount of additional value.

c) While it is difficult to find a product which is exactly parallel to the anti-skid control, the record of seat belts probably comes closest. These cost in the $25 to $35 range during their first year. Through the 1950's American Motors was the only manufacturer to offer belts as an accessory, and although belts had unqualified support of safety organizations the company realized sales on under 1 percent of cars until the legislation of the 1960's.

2. The requirements of fleet markets in total center around cost consideration, particularly in the case of government and major fleet operations. The nature of these cost requirements are different, however, between the two major market segments.

a) The key characteristic of government fleet purchasing is the overwhelming concern with price. Virtually all purchasing of motor vehicles and accessories is subject to public bidding and review. Hence, except where special equipment is required to accomplish a particular job, the government vehicle is strictly transportation and the cheapest equipment available is purchased.

Appendix G

APPENDIX "B"—Continued

(1) The Federal Government fleet has the most stringent financial limitation placed on it. All of their vehicles, with accessories, are purchased for under $1,500. This leaves no allowance for anything but the most necessary accessories. This ceiling has been set by law and there is no indication that it will be raised in the near future.

(2) The GSA, which purchases and operates the largest share of government vehicles, has shown interest in many new safety devices and has been discussing these devices with automotive companies. However, the agenda of their last meeting in Detroit this November did not include the anti-skid control, other devices being considered of higher priority.

(3) Smaller government fleets, such as local police vehicle fleets, have indicated interest in the anti-skid control. Where vehicle purchases are not subject to close public scrutiny and key persons influencing the sale may have a freer hand in choosing the equipment, the cost factor may be secondary. A number of these smaller fleets have shown initial interest in the system and the Perma control has been installed in a few trial cars.

b) The principal concern of the commercial fleet is cost of operations. These cost considerations fall into two areas: first, the cost of depreciation (the relationship between purchase price and eventual resale on the used-car market) as it affects the car and

Appendix G

APPENDIX "B"—Continued

the accessory equipment, and second, the cost of operation including fuel, maintenance, insurance, repairs, etc. In the large professionally managed fleets cost is the primary concern, although allowance is often given to match fleet equipment with the personally owned vehicle the driver is accustomed to.

(1) The large fleet operator looks at his costs as divided quite equally into three parts—depreciation, direct operating costs and all other, including the costs of accidents. Of the total cost of operation the direct cost of accident (the sum of insurance and non-insured accident costs) represents a minor 9 percent in the average business fleet. With this relatively low base, very little cost for accessory equipment can be justified in an attempt to reduce it.

(2) The costs of accidents are normally 85 percent covered by insurance, and unlike private auto insurance, the premium rate is negotiated annually with the underwriter. The rate varies from fleet to fleet, but is nearly always based on the accident experience of the previous year. Hence the large fleet operator will only consider installing a safety device when it can be shown that it will reduce the accident cost in relation to its cost.

(3) The fleet owner often will purchase accessories which have value from an employee relations point of view. The rule of thumb on this type of purchase usually is to give the driver of a company car equipment he has come to accept in his own

Appendix G

APPENDIX "B"—Continued

car. Hence, after power brakes rose to a rate in new car installation of around 50 percent the large fleets started to purchase cars with power brakes. The same situation has occurred with the automatic transmission and the 8-cylinder engine. On this basis the fleet operator would not purchase a new accessory until after it had received fairly wide consumer acceptance.

(4) The cost of depreciation over the time that the fleet holds a car, usually two to four years, is a factor in choice of accessories. The fleet operator recognizes that the accessories depreciate in market value much faster than the car itself. In fact, only five accessories are recognized as having resale value; these are automatic transmission, radio, power brakes and steering and air conditioning. All others, including Perma anti-skid control, are nearly valueless on the used-car market. This fast rate of market depreciation would be a further barrier to sales in this market.

(5) In addition to the large professionally managed fleets there are, of course, small fleets that are not subject to close cost control. These fleets are often run by one man with a relatively free hand over purchases, and who may recognize unusual operating factors such as poor road conditions. Many of these operators may be in a position to purchase a device such as the anti-skid control simply because the key man is convinced of its value.

Appendix G

APPENDIX "B"—Continued

3. There are a number of important requirements which would have to be met to successfully sell the Perma control in the user aftermarket.

a) Promotion to the user is the most important market requirement. The anti-skid control, in spite of the considerable amount of notice received in trade press, is virtually unknown to the car-owning public, and its story must be explained. In addition, the control is an item that a car owner does not have to have, and it therefore must be promoted more intensely than service or replacement parts which are necessary to operate his car. Promotional techniques which might be used include television "spot" announcements, group demonstrations, movie shorts, newspaper and magazine advertising and personal calls.

(b) Demonstrated reliability recognized by the motoring public would be essential to marketing of this product, both because it is new and because it becomes a part of the braking system of the car. Reliability could be demonstrated in a number of ways, including assocation of the control with established and *universally respected names such as Singer*. In addition, the record of fleets or other groups that have had good field experience with the device would be helpful.

c) Installation service for the unit must be competent. Although the unit does not require much time to install, the person doing the job must be

Appendix G

APPENDIX "B"—Continued

skilled. Because the unit goes into the braking system, all installation work must be sound.

d) Credit would be needed for this item because the relatively high cost of the Perma control cannot be met by the typical aftermarket purchaser in a cash payment.

D. *Distribution to the User Aftermarket*

Three established distribution systems represent possible channels for sales of the Perma anti-skid control, and meet to varying degrees the requirements for serving the user aftermarket. A fourth means of distribution—direct-to-user sales—would represent a fourth possibility. Effective use of any of these distribution systems would require strong promotional support.

1. New-car dealers presently sell independently manufactured accessory items as part of the new-car sale or when the new car is serviced. The dealer operates in a highly competitive environment in his sales of new cars. For instance, the average Ford dealer makes only $27 on each new-car sale, with General Motors dealers only slightly better. Accessories, on the other hand, have a much higher margin and present the dealer and his salesmen with a better profit opportunity than the car itself. New-car dealers would be interested in handling the anti-skid control as a relatively high-profit accessory item, and Perma's New York distributor appears to have had some limited initial success in placing the item with dealers.

Appendix G

APPENDIX "B"—Continued

2. The gas station, particularly selling through the TBA (tires, batteries and accessories) divisions of national oil companies, would present a means of distribution. The typical gas station is faced with a highly competitive situation in sales of gasoline and the TBA program is an effort to broaden the station's sales into higher-margin items. This channel is of particular interest because of the favorable reaction to the unit developed with Phillips Petroleum, which has been most interested in promoting the item. The gas station is able to offer credit through their credit cards. Although many stations would have the necessary installation competence, small stations do not have the skill to install the unit. In addition, the gas station is not a promotional outlet and would have to be backed with an independent promotional program.

3. The independent automotive specialty chains could possibly present a good outlet for the Perma control. These selling and installing organizations include U. S. Royal, Firestone, B. F. Goodrich, Vanderbilt, Midas Muffler and others. These outlets base their business on strong promotion and advertising and could handle the anti-skid control. The issue with this type of distribution is that they are very selective as to products handled. Their objective is to handle products which will make most efficient use of salesmen's time, and hence prefer established products for which user acceptance is well established and which can be sold with the minimum of sales time and effort. Also, in line with the nature of these operations, there is a requirement for rapid turnover of stock; one major

Appendix G

APPENDIX "B"—Continued

chain sets a minimum of four times a year. This limits the number of different products these stores will carry.

4. Direct user sales has been shown to be a possible method of selling anti-skid control. Several of the Perma distributors have had limited experience in selling through a number of direct-sale operators. Techniques have included demonstrations, following leads from advertising or from promotional talks, and neighborhood gatherings. This type of selling gives an opportunity for very heavy promotional effort. Arrangements would have to be made independently by the salesman for installation and credit. Large businesses in other products have been developed on this distribution basis and it can be a highly effective method of selling certain specialized products.

E. *Short-Term Market Prospects*

Based upon the results of this preliminary survey, it appears unlikely that the stated sales objective for the Perma control will be attained. With the prospect for sales to the automotive manufacturers virtually nil in the *foreseeable future,* and limited prospects in the fleet market, significant sales volume during the next two years will have to be realized from the user aftermarket. An aggressive, promotionally-oriented marketing program could probably develop sales of approximately 100 thousand units within the next two-year period. Estimates of sales to the principal markets are summarized in Exhibit 2.

1. Based on evaluation by major automotive manufacturers, the Perma anti-skid control does not meet

Appendix G

APPENDIX "B"—Continued

established requirements, and cannot be expected to find a place in the OEM market under present conditions. In the longer-range future, however, it is possible that anti-skid controls of some type may be included in the braking system of automobiles as original equipment.

2. Despite the large number of vehicles operated in civilian and government fleets, the sales potential for the Perma control appears quite limited. It is estimated that approximately 500 units could be sold the first year, and from 2,000 to 4,000 the second year. It is expected that these sales would be to small civilian fleets. The strict cost considerations under which professionally run fleets operate cannot justify a high-priced item like the Perma control, and impose a severe limitation to sales prospects in this market.

3. Depending on the effectiveness and intensity of sales effort, it is possible that on the order of 25,000 units could be sold in the user aftermarket during the first year, and perhaps two-to-three times this volume the second year, or from 50,000 to 75,000 units. It is most likely that these sales will be through car dealers and direct-sales organizations. TBA and specialty automotive products companies contacted as part of this survey expressed strong relúctance to taking on the Perma control—mainly because their operations are not geared to promotion and introduction of new products.

4. Although it is beyond the scope of this preliminary survey to evaluate in depth the various distribu-

Appendix G

APPENDIX "B"—Continued

tion methods open to the Perma control, or to recommend a marketing program, it is apparent that the anti-skid control has certain characteristics which could support a major direct-selling operation.

a) Involving, as it does, family safety, the anti-skid control is subject to promotion on a strong emotional basis. Coupled with this is the fact that it is a product which is demonstrable in familiar and understandable terms to the large car-owning population. Selling at a price well over $100, there is a good margin for significant sales commissions.

b) In recent years a number of consumer products having some of the above characteristics have been very successfully sold on a door-to-door basis and sales volumes so developed have been impressive at the peak of such programs. Sales volume is limited virtually only by the number of salesmen employed. Products such as water softeners, home fire and burglar alarms, storm windows, siding, and vacuum cleaners are examples of products sold by this type of sales operation.

c) Many of these selling organizations have engaged in the doubtful practices to which direct sales activities are subject, and have experienced serious financial and legal programs. In this regard estimates of possible sales of the Perma control have assumed good control of sales and promotional activities and careful selection of sales representatives. Marketing by means of the typical door-to-door operators on an unrestricted basis would represent a very different set of conditions and could present much greater sales prospects.

Exhibit 1
RESULTS OF ENGINEERING TESTS OF THE PERMA ANTI-SKID CONTROL

Agency Sponsoring Testing	Location	Approximate Results of Stopping Distance Tests: Dry Pavement	Approximate Results of Stopping Distance Tests: Wet & Slippery	Stability of Car During Locked-Wheel Stop	Reliability of Unit	Overall Estimate of the Worth of the Unit
Perma Research & Development	Motor Vehicle Research (Maine & New Hampshire)	15% less stopping distance with Perma	5% to 20% less distance with Perma	Considerable increase in stability	Laboratory tests of certain parts of the unit show reliability	Very valuable
Cadillac Motor Car Co. (div. of General Motors Corp.)	Delco Moraine Div. of G.M. (Dayton, Ohio)	5% to 10% more distance required with Perma	Slightly less stopping distance with Perma	Increased stability	Not tested	Has some value in control of car even though longer stopping distance
General Motors Technical Center	G.M. Proving Ground (Detroit)	9% to 18% more distance required	4% to 27% more distance required	Increased stability	Not tested	Gain in stability does not justify longer stopping distance
Chrysler	Chrysler Test Facilities (Detroit)	5% to 15% more required	5% to 15% more required	Increased stability	Not tested	Gain in stability does not justify longer stopping distance
Ford	Ford Test Facilities (Detroit)	1% to 10% more required	5% to 10% more required	No significant increased stability	Not tested	Not of value
American Motors	No formal tests made Unit on test car in car pool	—	—	Increased stability recognized	Not tested	Has some value in control of car even though longer stopping distance
Phillips Petroleum	Phillips Test Track (Bartlesville, Oklahoma)	—	5% to 20% more required	Increased stability	Not tested	Unit has value in control of car; would also like to see shorter stopping distance

William E. Hill & Company, Inc.

Exhibit 2

Perma Anti-Skid Control
PRELIMINARY ESTIMATE OF MARKET POTENTIAL
SUMMARY BY PRINCIPAL MARKETS

Market	Key Factor in Selling Market	Rate of Penetration	Potential Unit Volume: 1st Year	Potential Unit Volume: 2nd Year
Original Equipment Manufacturers	(1) Engineering acceptance	None expected	—	—
	(2) Cost versus value on market	None expected	—	—
Fleet				
Civilian	Reduction in operating costs	Slow	500	3,000
Government	Low initial cost of article and equipment	Very slow	150	1,000
User After-Market	Strength of promotional effort	Potentially rapid, depending on promotional program	25,000	70,000

William E. Hill & Company, Inc.

APPENDIX H

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

66 Civ. 665

PERMA RESEARCH & DEVELOPMENT COMPANY,
Plaintiff,

against

THE SINGER COMPANY,
Defendant.

This cause having come on for trial before the Court and a jury, Hon. Kevin Thomas Duffy, United States District Judge, presiding, commencing on the 5th day of November, 1973, and the parties having thereafter waived the jury and continued the trial before the Court, which trial concluded on the 28th day of June, 1974 and the issues having been duly tried and the Court having rendered its decision in an opinion dated April 11, 1975 which contains the Court's findings of fact and conclusions of law and plaintiff, Perma Research & Development Company having moved this Court for an order conforming the arithmetic calculations set forth at pages 57 and 58 of said opinion to the findings of fact set forth at pages 55 and 56 thereof, and the Court having given due consideration to the papers submitted by the parties with respect thereto,

NOW, THEREFORE, it is

ORDERED, ADJUDGED AND DECREED that the aforesaid motion of plaintiff is hereby denied and

Appendix H

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that plaintiff, Perma Research & Development Company recover from defendant, The Singer Company, the principal sum of $5,333,423.94, together with interest thereon at the rate provided in CPLR §5004 through May 15, 1975 in the amount of $1,521,165.82, and after May 15, 1975 to the date of entry of judgment at the daily rate of $888.90, together with the entire costs of this action, and

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant's counterclaim be and the same hereby is dismissed on the merits.

Dated: New York, New York
May 29, 1975

ENTER
/s/ Kevin Thomas Duffy
U.S.D.J.

JUDGMENT ENTERED:

Dated: New York, New York
June 3, 1975

/s/ Raymond F. Burghardt
Clerk

APPENDIX I

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

---

66 Civ. 665

PERMA RESEARCH & DEVELOPMENT COMPANY,

Plaintiff,

against

THE SINGER COMPANY,

Defendant,

This cause having come on for trial before the Court and a jury, Hon. Kevin Thomas Duffy, United States District Judge, presiding, commencing on the 5th day of November, 1973, and the parties having thereafter waived the jury and continued the trial before the Court, which trial concluded on the 28th day of June, 1974 and the issues having been duly tried and the Court having rendered its decision in an opinion dated April 11, 1975 which contains the Court's findings of fact and conclusions of law and plaintiff, Perma Research & Development Company having moved this Court for an order conforming the arithmetic calculations set forth at pages 57 and 58 of said opinion to the findings of fact set forth at pages 55 and 56 thereof, and the Court having given due consideration to the papers submitted by the parties with respect thereto,

NOW, THEREFORE, it is

ORDERED, ADJUDGED AND DECREED that the aforesaid motion of plaintiff is hereby denied and

Appendix I

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that plaintiff, Perma Research & Development Company recover from defendant, The Singer Company, the principal sum of $5,333,423.94, together with interest thereon, as provided in CPLR §§ 5001 through 5004, through May 15, 1975 in the amount of $1,529,614.34, and after May 15, 1975 to the date of entry of judgment at the daily rate of $1,137.39 together with the entire costs of this action, and

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant's counterclaim be and the same hereby is dismissed on the merits.

Dated: New York, New York
Friday, June 13, 1975

ENTER

/s/ KEVIN THOMAS DUFFY
U.S.D.J.

JUDGMENT ENTERED:

Dated: New York, New York
June 16, 1975

/s/ RAYMOND F. BURGHARDT
Clerk

6/17/75—Bill of Costs as taxed in the sum of $20,728 in favor of plaintiff, and added to the Judgment.

/s/ RAYMOND F. BURGHARDT
Clerk

APPENDIX J

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Nos. 715, 1126—September Term, 1975.
(Argued April 15, 1976 Decided July 1, 1976.)
Docket Nos. 75-7362, 75-7405

PERMA RESEARCH & DEVELOPMENT,
Plaintiff-Appellee,
Appellant,

v.

THE SINGER COMPANY,
Defendant-Appellant,
Appellee.

Before:

CLARK, *Associate Justice**,
TIMBERS and VAN GRAAFEILAND, *Circuit Judges.*

Appeal in a diversity action for breach of contract from decision of United States District Court for the Southern District Court of New York after trial without a jury and from decision and order of the same court which denied pretrial motions for summary judgment.

The judgment is affirmed.

MR. JUSTICE CLARK:

In a diversity action for breach of contract which commenced on March 9, 1966, the Singer Company (Singer)

* United States Supreme Court, Retired, sitting by designation.

appeals from the judgment recovered by Perma Research and Development Company (Perma). The District Court, sitting without a jury, found that Singer had breached a contractual obligation to use its best efforts to perfect, manufacture, and market an automotive anti-skid device covered by a patent that Perma assigned to Singer on December 21, 1964. The court awarded damages to Perma in the amount of $5,333,423.94, with interest and costs amounting to more than $1.5 million.

Singer raises three points: (1) The District Court erred in holding that a contract between the parties imposed upon Singer an implied obligation to use its best efforts to perfect the anti-skid device and make it fail-safe; (2) The Perma anti-skid device was not perfectible and marketable; (3) The proof of damages was speculative and based on postulated sales that could never actually take place. We find no merit in any of the contentions and affirm the judgment.

1. *The Course of the Action*

The controversy grew out of two contracts between the parties, the first dated June 18, 1964, and the second, December 21, 1964. The first provided Singer with an exclusive license to manufacture the automotive anti-skid device involved here. The second contract superseded the first and provided for the assignment of Perma's patents on the anti-skid device to Singer and the payment of a royalty thereon. The contract also provided for the furnishing of technical assistance by Perma at the request of Singer "in the continuing design and engineering and improvement of the Product and of the equipment for manufacturing the same"

for a 6-month period at a cost to Singer of $9800 per month. Upon Singer's abandonment of the contract, Perma brought this suit to set aside the December 21, 1964 contract and to enforce the earlier one. On motion for summary judgment, the complaint was dismissed save as to the "Wherefore" clause, which alleged that Singer did not use its "best efforts to market and manufacture the invention." On appeal, this judgment was affirmed, 410 F. 2d 572 (2d Cir. 1969). On remand the case came before Judge MacMahon, and a second Singer motion for summary judgment was denied. The court found that, under the December 18, 1964 contract, Singer was required to "continue to collaborate with Perma for a reasonable length of time in a good faith effort to resolve the problems then preventing the marketing of the product." 308 F. Supp. 743, 748. The principal issue, the court found, was "Did Singer use its best efforts for a reasonable time in collaboration with Perma to perfect the product" in order to prepare it for market. Id. at 749.

Singer then sought dismissal on the ground that it had been induced to enter the December 1964 contract on the misrepresentation by Perma that the anti-skid device was fail-safe. This third motion for summary judgment came before Judge Metzner who denied it, holding that "it is perfectly obvious from the record and the prior opinions that defendant Singer could not have been under any delusions that the product was fail-safe." Thereafter the case came before Judge McLean who agreed that the issue involved was as had been stated by Judge MacMahon. Unfortunately Judge McLean died, and subsequently the case was assigned to Judge Duffy, who entered the judgment here under review on April 11, 1975.

His 59-page opinion reveals the meticulous care and erudition that he gave to the trial and the "extraordinary latitude" he permitted Singer "to prove all that it could and to make any argument it wished" in the hope "that this trial would mark an end to this litigation." The ten-year, tortuous course of this litigation has involved five different trial judges and is here now for the second time, and still Singer insists that the December 18, 1964 contract does not impose upon it the obligation to perfect the anti-skid device it obtained from Perma, or if it does, that the abandonment of the contract was justifiable on the ground that the anti-skid device was not sufficiently perfectible to satisfy Singer's standard of "absolute fail-safety". The district court found that this was not only "an impossible standard" but was beyond the agreement of the parties. Finally, Singer claims that "any damage award would nevertheless be speculative", as being based on phantom "sales of a non-skid device which subsequent history has shown could not have been successfully sold."

We too have examined the record and find that substantial evidence supports the findings of the trial judge and that they are not clearly erroneous.

2. *The Obligation of Singer*

We need not belabor the point that Singer was obligated under the December 1964 contract to use its best efforts to perfect the anti-skid device covered by the Perma patents that were assigned to it. As the trial court found: "Both parties recognized the need for engineering on the device." In fact before the contract was signed, Singer employed William E. Hill and Company, Inc. to do a market survey on the anti-skid device, and the results thereof were re-

ported to Singer prior to its purchase of the patents. The report's principal findings and conclusions included an evaluation of the anti-skid device:

> The Perma anti-skid control falls short of meeting requirements of automotive engineers and does not provide the improvement possible in theory. The consensus of many engineering tests that had been run on the unit indicates that the Perma control as compared to a panic or locked wheel stop, gives improved steering control but requires a greater stop distance to come to a complete stop.
>
> The General Motors Research Center, the Ford Advance Design Corporation and the Chrysler Brake Laboratory are against use of the control.

Based on evaluation by major automobile manufacturers, the Perma anti-skid control did not meet established requirements. In the contract of December 1964, Singer specifically recognized its obligation for the effectiveness of the anti-skid device by providing therein that Perma, in consideration of the payment of $9800 monthly, would furnish assistance to Singer in the "continuing design and engineering and improvement of the Product and of the equipment for manufacturing the same."

It is significant also that two days after Singer signed the contract, it ordered a long list of engineering services from Perma, advising "we must find a design which will yield consistent and higher results." Singer was aware of the firms with which it was doing business and who had found defects in the anti-skid device. Singer knew that some problems had arisen regarding the finishing of the product. Nevertheless it said: "We have taken hold of

the problem and resolved it. We feel that we have a product worthy of offering to the public and plan a full marketing campaign." Letter to C. G. Morehouse, Portland, Oregon, July 7, 1965.

Despite this representation, as early as July 22, 1965, Singer had decided to restrict extensive experimentation to short range projects. An internal managerial task force on August 10, 1965 recommended to Singer that marketing of the anti-skid device be suspended. The explanation was that the device's future was uncertain as a product item for Singer because it would place "us in the automotive parts industry dominated by the purchasing power and engineering skills of the Big 3". Suspension was recommended although Denville Special Report No. 62, which was charged with the technical evaluation of the anti-skid device, reported on August 10, 1965 that the device was not fail-safe, but estimated that the problem could be overcome at a cost to Singer of around $30,000. Rather than proceed further to improve the anti-skid device as it had agreed to do, Singer decided to abandon the project. On December 22, 1965, Singer advised Mr. Frank Perrino, the top official of Perma, "Very bluntly, Frank, we do not want to be in the brake business—our people at Elizabeth should not have gotten into the brake business." At the same time, Singer rejected Perrino's suggestion of improvements that might make the anti-skid device fail-safe. On January 26, 1966, Singer finally abandoned all efforts to perfect the anti-skid device.

3. *The Record as to Perfectibility of the Anti-Skid Device*

When Alfred DiScipio became Vice President of Singer in charge of consumer products, he visited the Elizabeth

plant. While there, tests of the anti-skid device were made, and every one proved to be disastrous. Mr. DiScipio characterized the device as being not "fail-safe" and asserted that Singer would not market a product which "could leave the purchaser . . . less safe than if he hadn't elected to purchase it . . ." While Perma had represented that its anti-skid device had "fail-safe features", we find no representations that it ever claimed that the device was "absolutely fail-safe." In fact, Singer's own brake expert testified that he knew of no anti-skid device marketed in the United States that was completely fail-safe and that such perfection was not obtainable. In any event, Singer has no ground for complaint in this regard since it knew before buying the Perma patents and making the December contract that the device suffered operating failures and was not fail-safe. It was for this reason that the District Court found this defense "to be totally a sham", and dismissed Singer's counterclaim. We approve this action.

We have considered Singer's objection to the expert testimony by Daniel Goor and Andre L. DeVilliers. The particular objection made to the use of the results of computer simulation was directed to the basis for this expert testimony. While it might have been better practice for opposing counsel to arrange for the delivery of all details of the underlying data and theorems employed in these simulations in advance of trial in order to avoid unnecessarily belabored discussion of highly technical, tangential issues at trial, Fed. R. Civ. P. 26(b)(4)(A), the trial judge did not abuse his discretion in allowing the experts to testify as to this particular basis for their ultimate conclusion that the Perma device was indeed perfectible. While delivery of the actual computer programs would not appear to serve much purpose apart from delivery of the data and scientific formulae employed, the production of such programs in advance of trial with suitable protective orders to protect truly proprietary aspects of the programs) also would have been better practice. On the record before us, however, we hold that Singer has not shown that it did not have an adequate basis on which to cross-examine plaintiff's experts.

4. *The Damages Are Not Speculative*

Since we hold that the anti-skid device was perfectible, Singer's argument that no market exists must necessarily fail. The argument is that since the anti-skid device was not ready for the market, it could not be sold. But as we have found, its obligation was to perfect the device, and the finding of its own people was that the device was perfectible. This is a complete answer to Singer's defense. Nor will the bare fact that no other manufacturer sold such a device in the aftermarket prove that such a market did not exist. Indeed the record includes proof to the contrary. Prior to the December 1964 contract, Perma itself had contracted for the sale of 139,000 units of the device. Within one month of the December 1964 contract, Singer itself had made a contract with its distributor, Motor Enterprises, to take a minimum of 56,000 units in the first year, and 100,000 units annually thereafter. Motor Enterprises further agreed to spend $250,000 annually on the promotion of the device. Moreover, the Singer-held report found that "with its strong emotional appeal to safety and with demonstrable characteristics (the device) lends itself to a consumer-directed merchandising effort.

Typical of products of this type, sales volume will depend largely on the amount of promotional efforts." Furthermore, as of 1966, Singer would have the only anti-skid device on the market and could have enjoyed a monopoly for a period of two to three years. Finally, Singer never relinquished the patents and the patents' very existence in Singer hands might well have discouraged other development.

It ill behooves Singer to cry "no market" when it actively sought to exploit the operation before it decided that the anti-skid device was not the item for Singer. The fact of damage and the measure of its proof turn on the particular facts of each case. One is entitled to the reasonable damage flowing from the breach of a contract. *For Children Inc.* v. *The Graphics Int'l, Inc.*, 352 F. Supp. 1280 (S.D.N.Y. 1972).

In simple terms, the measure of the damage is the amount necessary to put the injured party in exact position as he would have been if the contract had not been breached. If Singer had put its resources and ingenuity to the anti-skid device, it probably would have been successful in the marketing of the same. Nor are the damages too speculative to assess. At the outset, since Singer produced the damage, it must bear the uncertainty of proof. *Autowest Inc.* v. *Peugeot, Inc.*, 434 F. 2d 556, 565 (2d Cir. 1970). Thus the reasonable basis for damages that the law requires is a precise one, barring only those damages which "are not the certain result of the wrong, not . . . those damages which are definitely attributable to the wrong *and only uncertain in respect of their amount.*" (emphasis supplied). *Story Parchment Company* v. *Paterson Parchment Paper Company*, 282 U. S. 555, 562 (1931).

We have carefully considered the damage calculations of the parties and the amount awarded by the trial court, and we cannot say that the award is either unreasonable or unsupportable.

The judgment is therefore affirmed.

VAN GRAAFEILAND, *Circuit Judge*, dissenting:

The District Judge has held the defendant liable for seven million dollars in damages because, he said, defendant breached an implied promise to perfect and market plaintiff's invention. Because I am convinced that both the decision and the manner in which it was reached were clearly erroneous, I dissent.

Although there has been ample judicial discussion of the difference between obligations implied in fact and those implied in law,[1] this distinction remains blurred in many decisions. Regardless of terminology, however, one thing is clear. An obligation, implied either in fact or in law, is fashioned from the facts and circumstances surrounding the dealings of the parties; it does not, like Minerva, spring full blown from the head of the trial judge. Implied promises are to be cautiously and not hastily raised, *Genet* v. *Delaware & Hudson Canal Co.*, 136 N.Y. 593, 608 (1893). They are strictly construed, 14 Castner, Business Organizations—Patent Licensing Transactions § 2.09 (1975), and the plaintiff has a heavy burden in convincing the court of their existence. 19 Cornell L.Q. 603, 606 (1934).

---

1. *See, e.g., Bradkin* v. *Leverton*, 26 N.Y.2d 192 (1970); *Adams & Co. Real Estate* v. *E. & B. Super Markets, Inc.*, 26 A.D.2d 365 (1st Dep't 1966); *Beidlar & Bookmyer, Inc.* v. *Universal Ins. Co.*, 134 F.2d 828 (2d Cir. 1943); *Kulukundis Shipping Co.* v. *Amtorg Trading Co.*, 126 F.2d 978, 990 (2d Cir. 1942); *Parev Products Co.* v. *I. Rokeach & Sons, Inc.*, 124 F.2d 147, 149 (2d Cir. 1941).

Where the obligation asserted is not expressly stated in the contract, "[i]f it is supportable at all it must be from some implication arising out of the situation and acts of the parties, and the circumstances surrounding the property at the time of the [contract], which is by the obligation of some principle of justice and equity required to be made." *Dermott* v. *State,* 99 N.Y. 101, 109 (1885); 3 Corbin on Contracts §§ 562-564 (1960). "[W]here intent, though obscure, is nevertheless discernible, it must be followed. . . ." *Parev Products Co.* v. *I. Rokeach & Sons, Inc.,* 124 F.2d 147, 149 (2d Cir. 1941). In short, before any implied obligation is found to exist, the facts surrounding the making of the written contract should be fully explored. *Reback* v. *Story Productions, Inc.,* 9 A.D. 2d 880 (1st Dep't 1959).

In the instant case, the District Judge decided that the defendant had an implied obligation to perfect plaintiff's non-skid device before he heard one word of testimony. On September 28, 1973, pursuant to Fed.R.Civ.P. 16, he signed an order specifying the issues to be tried. The fundamental issue on liability, as he framed it, was:

> Before it abandoned the contract dated December 21, 1964, did defendant use its best efforts for a reasonable period of time in collaboration with plaintiff to perfect the product so as to make it marketable?

With the entry of this order, the battle was half over, although not a single shot had yet been fired. Insofar as the District Judge was concerned, there was no question as to the existence and scope of an implied obligation, only whether the obligation as he had already found it to exist had been performed.

A pretrial order supersedes the pleadings and becomes the governing pattern of the law suit. *Case* v. *Abrams,* 352 F.2d 193, 195 (10th Cir. 1965). For this reason, a pretrial conference should not serve as a substitute for the regular trial of the case; and pretrial orders should not be used to resolve factual issues properly determinable on trial. *Lynn* v. *Smith,* 281 F.2d 501, 506 (3d Cir. 1960). The procedure followed in this case was, I am convinced, clearly and prejudiciously erroneous.

The District Judge stated in his opinion that, while he had defined the issues at the start of the trial, he had permitted "extraordinary latitude" to the defense to prove all that it could. I find this statement to be without support in the record. The District Judge stated repeatedly that he had signed a pretrial order setting forth the issues; that "these are the issues that we are trying here"; that "I am trying to keep this case within the issues as defined and I intend to do just that"; that "I signed an order trying to delineate the issues and these are the issues we are going to try in this case"; that "we are going to try the issues that were set forth in that pretrial order". He also told defense counsel that if counsel would like to argue that his signing the pretrial order was improper, he would "have to go to our friends on the seventeenth floor to get that decision".[2]

The District Judge sustained objections to question after question by means of which defense counsel sought to establish the parties' mutual belief and understanding that plaintiff's non-skid device was perfected, marketable and fail-safe at the time the contract was signed. In rebuffing the

2. This Court sits on the 17th floor of the United States Courthouse in Foley Square, New York.

attempts of defendant to establish its belief in and reliance upon plaintiff's representations to this effect, the District Judge's expressed reaction was, "It couldn't matter less." I believe that it should have mattered and that the District Court's exclusion of this testimony was prejudicially erroneous. Where a party's intent or belief is material to the issues in a lawsuit, he should be permitted to testify concerning it. *Noonan* v. *Luther,* 206 N.Y. 105, 108 (1912); *Bayliss* v. *Cockcroft,* 81 N.Y. 363, 371 (1880); *McKown* v. *Hunter,* 30 N.Y. 625 (1864); *Sowalsky* v. *E. F. MacDonald Stamp Co.,* 31 A.D.2d 582 (3d Dep't 1968); *Epstein* v. *Cuba,* 25 A.D.2d 680 (2d Dep't 1966); Richardson on Evidence § 384(1)(9th Ed. 1964); 2 Wigmore, Evidence § 581 (3d Ed. 1940). "To shut out the light furnished by the parties themselves—to read their words not as they meant them but as they appear when denuded of that meaning—is to decide an unreal, fictitious, hypothetical case." *United States* v. *Lennox Metal Mfg. Co.,* 225 F.2d 302, 313 (2d Cir. 1955).

Having decided the issue in advance of trial and thereafter having hamstrung the efforts of the defense, it was a meaningless gesture for the District Judge to "find" at the conclusion of the trial that defendant had an implied obligation to perfect plaintiff's invention. As he stated in his opinion, he found for plaintiff "on the claim that was tried".

Even if it be assumed that the procedure followed by the District Judge was not prejudicially improper, I am convinced, nonetheless, that his "finding" was clearly erroneous. A patentee has the exclusive right to make, use and sell his invention and may transfer all or part of this right to another. *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,*

395 U.S. 100, 135 (1969). Where the right has been transferred, courts have in some instances implied in the transferee an obligation to exercise it. However, the obligation thus implied has been to "make, use and sell", nothing more. It has been defined variously as an implied promise to "work the patent", *Driver-Harris Co.* v. *Industrial Furnace Corp.,* 12 F.Supp. 918, 919 (W.D.N.Y. 1935); "work the patent in good faith to make it produce royalty income", *Mechanical Ice Tray Corp.* v. *General Motors Corp.,* 144 F.2d 720, 725 (2d Cir. 1944), *cert. denied,* 324 U.S. 844 (1945); "manufacture and sell", *Eastern Electric, Inc.* v. *Seeburg Corp.,* 310 F.Supp. 1126, 1151 (S.D.N.Y. 1969), aff'd, 427 F.2d 23 (2d Cir. 1970); "manufacture and market", *Perma Research and Development Co.* v. *Singer Co.,* 410 F.2d 572, 574 (2d Cir. 1969); and "exploit", *Bellows* v. *E. R. Squibb & Sons, Inc.,* 359 F.Supp. 204 (N.D. Ill. 1973).

While the phrase "best efforts" is often used to describe the extent of the implied undertaking, this has properly been termed an "extravagant" phrase, Becker, Licensing in the Chemical Industry, 55 J.Pat. Off. Soc'y, 759, 774 (1973); and it should not be literally interpreted. A more accurate description of the obligation owed would be the exercise of "due diligence", *Vacuum Concrete Corp. of America* v. *American Machine & Foundry Co.,* 321 F.Supp. 771, 775 (S.D.N.Y. 1971), or "good faith". *Mechanical Ice Tray Corp.* v. *General Motors Corp., supra,* 144 F.2d at 725. Thus, courts have not required the transferee to enter into a hopeless contest, *Eclypse Bicycle Co.* v. *Farrow,* 199 U.S. 581 (1905), to resort to "any means whatever" to produce royalty for the transferor, *Tibbetts Contracting Corp.* v. *O & E Contracting Co.,* 15 N.Y. 2d 324, 337 (1965), or to manufacture and sell "come what may". *Parev Prod-*

ucts Co. v. *I. Rokeach & Sons, Inc., supra,* 124 F.2d at 150; *United States* v. *Combustion Engineering, Inc.,* 364 F.Supp. 181, 186 (D.Conn. 1972). He has not been compelled to manufacture and sell without profit, *Tesra Co.* v. *Holland Furnace Co.,* 73 F.2d 553, 555 (6th Cir. 1934); *HML Corp.* v. *General Foods Corp.,* 365 F.2d 77 (3d Cir. 1966), or to attempt to sell an unmarketable product. *Bull* v. *Logetronics, Inc.,* 323 F.Supp. 115, 132 (E.D.Va. 1971). I know of no case, with facts similar to those of the instant one, in which a licensee or assignee was found to have impliedly promised to perfect a defective product in order to make it marketable.[3] For the reasons which follow, I do not believe that such implication should have been made in this case.

Intent of the Parties

In determining whether defendant had an implied obligation to perfect plaintiff's invention, a controlling factor should be the intention of the parties. *Parev Products Co.* v. *I. Rokeach & Sons, Inc., supra.* A contract should not be implied against the intention and understanding of the parties. *Adams & Co. Real Estate* v. *E & B Super Markets, Inc.,* 26 A.D. 2d 365 (1st Dept. 1966).[4] I think

3. "The better reasoned cases have recognized that a licensed product or process must be marketable or commercially exploitable for the licensor to hold the licensee to his contract." Vukowich, Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements. 50 J. Pat. Off. Soc'y 307, 312 (1968).

4. "The 'best efforts' clause is obviously no more than an expression of the aim of the parties in entering the agreement." Scales, Best Efforts and Implied Obligations in Patent Licenses, 41 Marq. L. Rev. 385 (1958).

it irrefutable that if plaintiff was convinced that its non-skid device was marketable and fail-safe, it could not have intended that defendant was going to perfect it so as to make it marketable and fail-safe. The proof is clear and uncontradicted that from the first meeting between representatives of plaintiff and defendant until the last day of trial, plaintiff considered its anti-skid apparatus to be both marketable and fail-safe.

In 1963, before it had any contact with defendant, plaintiff arranged to have its device manufactured by Worcester Stamp Metal Company; and Worcester expended over one million dollars for tooling and inventory in preparation for performance. However, after plaintiff had marketed approximately 3,500 units manufactured by Worcester, it became dissatisfied with Worcester's quality control; and, when production was interrupted by a strike, plaintiff was in the market for a new manufacturer. It was at this time that defendant entered the picture. During negotiations which followed, plaintiff repeatedly assured defendant that its device was both perfected and fail-safe. These assurances were made orally, in writing and in a promotional film. Plaintiff has never deviated from this position.

When defendant quite properly determined that plaintiff's device was neither perfected nor fail-safe and ceased performance,[5] plaintiff sued to rescind the contract. In its complaint, it alleged that defendant was not bound to perform any covenants or agreements and retained complete discretion as to marketing and manufacturing. In its reply to defendant's counterclaim for fraud and misrepresenta-

5. The District Court correctly found that plaintiff's device was neither perfected nor fail-safe.

tion, plaintiff alleged that defendant was obligated to "expend time and money in the manufacture, distribution and sale, testing, recalling and retrieving" of its product. Nowhere was there any mention of "perfecting".

When defendant moved for summary judgment before Judge MacMahon, plaintiff's president, the inventor of the unit, swore that in his opinion it was fail-safe. In plaintiff's statement submitted pursuant to S.D.N.Y. R.9(g), it asserted that the unit was fail-safe and was in no other way unsuitable for commercial use. It stated:

> As plaintiff has said repeatedly, the product at all times was ready for mass production and was marketable.

On the trial, plaintiff's president testified that the product was fail-safe, was perfected, was acceptable and doing what it was intended to do and was ready to be put into mass production. In light of plaintiff's undeviating position on this issue, the District Court's statement that both parties knew the device was not perfected and was unmarketable was clearly erroneous and without support in the proof.

The District Judge categorized plaintiff's assertions as "puffing", and concluded that defendant could not have relied upon them. If they were "puffing", it is clear that plaintiff "puffed" its way right through the lawsuit, because it never changed its position. Moreover, there is ample proof that defendant did rely on plaintiff's statements. For example, when the contract was entered into in December 1964, defendant assumed plaintiff's obligations under five distributor contracts which called for

delivery of over 50,000 units in 1965; and, within a few weeks thereafter, defendant agreed to sell Monitor Enterprises, Inc. a minimum of 50,000 units, delivery also to be made in 1965.

However, reliance by defendant is not the issue with which we should be concerned; rather, it is plaintiff's own belief in the truth of its statements. If plaintiff believed that its device was perfected, fail-safe and marketable, and it is clear that it did, it could not have intended, relied upon or even contemplated an implied promise by defendant that it would make it fail-safe and marketable. For the District Judge to now give plaintiff the benefit of such an implied promise to the tune of seven million dollars, is, in my opinion, a clear miscarriage of justice.

The Written Contract

The contract between the parties was not scribbled on the back of an old envelope. It was a "detailed written Agreement reached as the result of skilled legal negotiation." *See Vacuum Concrete Corp. of America* v. *American Machine & Foundry Co., supra,* 321 F.Supp. at 775. Not only was there no reference to "perfecting" the device in the written agreement; there was no discussion of perfecting in the negotiations which preceded it. Moreover, there was no "grant-back" provision, as is customarily found in contracts calling for experimentation and development.[6]

6. "A patent license grant-back gives the licensor full access to all future improvements and know-how that the licensee develops as a result of being licensed under the original patent." Jacobs, Patents for Softwear Inventions, The Supreme Court's Decision, 13 Jurimetrics J. 132, 137 (1973).

The contract provided that defendant "in its absolute discretion shall determine the method of manufacturing, exploiting and marketing the Product" but gave plaintiff the right to reacquire its device if defendant failed to spend at least one hundred thousand dollars for "marketing, promoting and advertising" in any year beginning with 1966.

It provided further that, in addition to specified royalties, defendant would pay plaintiff twenty-four thousand dollars in cash, would purchase tools and parts for approximately seventy-nine thousand dollars, would assume payment of certain obligations of the plaintiff approximating two hundred ten thousand dollars and would take over five distributor contracts to which plaintiff had already committed itself and which called for delivery of over 50,000 units in 1965. These payments, of course, were in addition to the one and one-half million dollars that defendant had already expended for purchase of parts and tooling from Worcester Metal. Finally, the written agreement stated that it contained "the entire understanding of the parties" and that "there are no restrictions, promises, warranties, covenants, or undertakings other than those expressly set forth herein." It is in the light of these provisions that the trial court's finding of an implied duty to perfect must be weighed.

Where a formal written contract results from elaborate negotiations between the parties and their counsel and contains an explicit statement that it incorporates the complete agreement of the parties, additional undertakings should not be implied except to rectify a manifest injustice. *HML Corporation* v. *General Food Corp., supra; Vacuum Concrete Corp.* v. *American Machine & Foundry Co., supra; Eastern Electric, Inc.* v. *Seeburg Corp., supra.*

With the execution of the contract herein, defendant had approximately two million dollars invested in a device which, despite plaintiff's representations to the contrary, was unmarketable and dangerous. Implication of an obligation to perfect this device, in direct contravention of the terms of the written agreement, exacerbates, rather than rectifies, an injustice.

The District Judge's statement that plaintiff's device could have been perfected "without unreasonable cost or effort" is completely without support in the record. Defendant did not believe that the device could be perfected. The process which plaintiff's expert opined would lead to perfection required at least a fifteen month program of experimentation and development at a cost in excess of seven hundred fifty thousand dollars. Inequity would be heaped upon inequity if, after defendant had spent several years in attempting to perfect the device, plaintiff then exercised its right of reversion because defendant had failed to spend at least one hundred thousand dollars per year for "marketing, promoting and advertising".

The technical assistance contract, upon which the District Judge relied heavily in finding an obligation to perfect, is a very common adjunct to licensing agreements. Contracts of this nature are intended as an aid to the licensee "in establishing better methods of operation and overcoming day-to-day difficulties". Vukowich, Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements, 50 J.Pat.Off.Soc'y 307, 337 (1968). These are "commonly included with know-how and patent licenses so that the licensed invention or information can be adapted to the licensee's particular needs and

so that the licensee can be assured that it is propitiously exploited". *Id.* The six months' technical assistance contract in the instant case in no way implied an obligation on the part of the defendant to perfect a device which proved to be unmarketable and not fail-safe.[7]

THE SEVEN MILLION DOLLAR COMPUTER PROGRAM

Plaintiff offered the testimony of two expert witnesses in support of its claim that its anti-skid device could be made workable and fail-safe. The first of these witnesses based his opinion upon experimental data supplied by the second, and the second secured all his data from some simulated formulas which he fed into a computer. The information upon which these formulas were based was hearsay, having been secured from still a third person. It was conceded by the witnesses that their conclusions were based upon the computer output. Indeed, neither of plaintiff's experts had ever seen plaintiff's device in operation or had tested it.[8]

7. In a pretrial memorandum filed by plaintiff, it said:
"The technical service contract . . . was entered into so that the technical expertise of Perma would be available to Singer for improving its manufacturing methods."

8. There is substantial authority in both the New York and federal courts that the opinion of an expert witness must rest upon facts, rather than upon the opinions, inferences or conclusions of others. *See, e.g., Kreutzwald* v. *Walters,* 242 App. Div. 479, 480 (4th Dep't 1934) (per curiam); *Bergman* v. *Mergenthaler Linotype Co.,* 274 App. Div. 553 (3d Dep't 1948) (per curiam); *Marx* v. *Ontario Beach Hotel and Amusement Co.,* 211 N.Y. 33, 38 (1914); *Stancill* v. *McKenzie Tank Lines, Inc.,* 497 F.2d 529, 536 (5th Cir. 1974); *6816.5 Acres of Land* v. *United States,* 411 F.2d 834, 840 (10th Cir. 1969); *Taylor* v. *B. Heller and Co.,* 364 F.2d 608, 613 (6th Cir. 1966). Where, as in this case, the opinion of another which is relied upon by the expert is based upon hearsay information received from a third person one more step removed, the expert's testimony should be looked at with a jaundiced eye even under the liberal Federal Rules of Evidence.

As one of the many who have received computerized bills and dunning letters for accounts long since paid, I am not prepared to accept the product of a computer as the equivalent of Holy Writ. Neither should a District Judge. To be marketable, plaintiff's non-skid device had to function on cars of all types and size, on rough roads and smooth roads, in rainy weather and in dry weather, in the winter and in the summer, at high altitudes and low altitudes, and with wheels, tires and braking systems of all kinds, in fact, under all conceivable conditions. In addition, under all conditions it had to be fail-safe.[9] Proof that plaintiff's defective and dangerous device could be transformed in some way to accomplish all this required more than the running of some figures through a computer which involved calculation of a theoretical series of stops, following the assumed installation of a hypothetical or simulated anti-skid device on a 1968 Thunderbird.

Authorities in the field of computer research acknowledge that simulation is "essentially an experimental problem-solving technique". Gordon, System Simulation 18 (1969). "Simulation is 'make-believe'—it's a game—but it should have some solid relationship with the real world." Favret, Introduction to Digital Computer Applications 122 (1965). It is the "construction and manipulation of a model of a real world reference system by utilizing theoretical simplifications and assumptions", Computer Simulation and Gaming: An Interdisciplinary Survey with a View Toward Legal Applications, 24 Stan. L.Rev. 712 (1972). A computer model is valid "only insofar as it enables us to make

9. Plaintiff's own expert conceded that the anti-skid unit "had to be designed so that it could function under the total range expected in the automotive environment where the unit is to be installed".

valid inferences about the real-world system being simulated". Gonzales and McMillan, Machine Computations: An Algorithmic Approach 212 (1971).[10]

Plaintiff's expert testified that the computer would not simulate everything that one finds in a vehicle.[11] The District Judge himself stated that it was very obvious that plaintiff's experts did not include all things in the simulation and categorized the testimony of these experts as "an area of pure physics and delightful math". When defense counsel questioned one of the experts about the specific functioning of plaintiff's device, the District Judge said, "He has already testified that he did no experiments directly on the thing. How could he know? He is in the realm of theory."

Both plaintiff's and defendant's experts agreed that simulations and development programs must go hand in hand; that the generally accepted procedure followed in a computer simulation is to validate or test the simulated device against a prototype or breadboard. Plaintiff's expert said, "The only way one is going to tie it down and find out exactly what the thing is is to go out and test it."

---

10. "Applied mathematicians . . . are always simulating something and know what they are talking about (but they may be far from certain whether what they are saying is true)." Gonzalez and McMillan, at 186.

11. Among the things which were not simulated in the theoretical device of plaintiff's witness were engine stalls and vacuum loss, the transfer value, the plunger in the hydraulic cylinder, the gears, the freedom of motion in the adapter gear, the tortional elasticity of the flexible shaft, the performance of the drive gear, the backlash in the gears, the oscillation between a retaining pin and the cam gear and the friction in the governor. Indeed, plaintiff's expert ignored the measurements and figures in plaintiff's existing unit.

While the "reduction to practice" test commonly used in patent infringement cases is not completely analogous, I believe it is one which could properly be applied here.[12] These cases hold that tests under service conditions are required whenever the conditions which will be met in actual use have not been duplicated in the laboratory. *Farrand Optical Co.* v. *United States,* 325 F.2d 328 (2d Cir. 1963). Among the devices for which tests under actual working conditions have been required are automobile sparkplugs, *Payne* v. *Hurley,* 71 F.2d 208 (C.C.P.A. 1934), an automobile bumper, *Fageol* v. *Lyon,* 290 F.2d 336 (D.C. Cir. 1923), a de-icing device for an airplane windshield, *Gaiser* v. *Linder,* 253 F.2d 433 (C.C.P.A. 1958), a radar device for ships and airplanes, *Radio Corp. of America* v. *International Std. Elec. Corp.,* 232 F.2d 726 (3d Cir. 1956), an airplane carburetor, *Chandler* v. *Mock,* 202 F.2d 755 (C.C.P.A. 1953), and a fuel pump for an airplane, *Burns* v. *Curtis,* 172 F.2d 588 (C.C.P.A. 1949).

Judge Learned Hand said in *Sinko Tool & Mfg. Co.* v. *Automatic Devices Corp.,* 157 F.2d 974, 977 (2d Cir. 1946), that tests under service conditions are necessary whenever qualified persons would require such a test before they were willing to manufacture and sell the invention as it stands. Plaintiff's own expert testified that its anti-skid device was presently unmarketable, that "feasibility" studies involving the testing of actual prototypes on automobiles would be required and that "the whole pro-

---

12. In patent infringement cases, where priority of invention is in issue, proof of prior conception standing alone may not be sufficient. It is often required that the "prior" inventor establish that his invention has been tested to make sure that it will operate under service conditions. *Payne* v. *Hurley,* 71 F.2d 208 (C.C.P.A. 1934).

gram would terminate if the feasibility studies showed that it wasn't feasible." Despite all this, the District Judge "bought" the hypothetical, untested and unproven simulation of plaintiff's experts—using, of course, defendant's seven million dollars.

If the District Judge erred in accepting the testimony of plaintiff's experts that its device could be made workable, he went even further afield in finding that it could be made fail-safe. The computer simulations dealt only with stopping distances and had nothing to do with the fail-safe characteristics of plaintiff's device. Plaintiff's expert testified that, after a six month feasibility study of computer simulations, it would be necessary to build a prototype which would then be subjected to a five month "failure analysis" program using new and different computer programming. This analysis of the device's fail-safe characteristics would, the witness said, be "an extremely critical thing", requiring decisions as to what components needed to be completely redesigned.[13] Sans feasibility study, sans prototype, sans failure analysis program, sans fail-safe computer programming, sans the making of any decisions on redesign, the District Judge accepted the opinion of plaintiff's expert that plaintiff's anti-skid device could be made fail-safe. This was error.

Experts are not exempt from the rules of evidence, *McFarland* v. *Gregory,* 425 F.2d 443, 448 (2d Cir. 1970), and their testimony must be based upon established facts. *Perry* v. *Allegheny Airlines, Inc.,* 489 F.2d 1349, 1353 (2d

13. The witness also testified that after the five-month "failure analysis" program, an additional five months would have to be devoted to the making of pre-production samples which would be subjected to environmental and reliability testing. This would be followed by still another period of fleet build up and testing.

Cir. 1974); *Cassano* v. *Hagstrom,* 5 N.Y. 2d 643, 646 (1959); *S. De Lia Construction Corp.* v. *Green Island Contracting Corp.,* 46 A.D.2d 970, 972 (3d Dep't 1974); *Stracher* v. *Corning Glass Works,* 39 A.D.2d 560, 561 (2d Dep't 1972). It may not be based upon unsupported assumptions and opinions, *Di Filippo* v. *Gargiulo,* 278 App. Div. 172 (1st Dep't 1951); *Franzese* v. *Mackay Trucking Corp.,* 10 A.D. 2d 713 (2d Dep't 1960), guess, speculation or conjecture, *Craig* v. *Champlin Petroleum Co.,* 435 F.2d 933, 937 (10th Cir. 1971); *Kale* v. *Douthitt,* 274 F.2d 476, 482 (4th Cir. 1960). A naked opinion based upon speculation or conjecture "does not rise to the dignity of evidence". *Atlantic Life Ins. Co.* v. *Vaughn,* 71 F.2d 394, 395 (6th Cir.), *cert. denied,* 293 U.S. 589 (1934).

It goes without saying that the findings of the trial judge cannot rise above the legitimate testimony of the expert witness. "Speculation cannot supply the place of proof." *Moore* v. *Chesapeake & Ohio R.R.Co.,* 340 U.S. 573, 578 (1951). See *Galloway* v. *United States,* 319 U.S. 372, 387, 395 (1943). Testimony that an undescribed, hypothetical anti-skid device can be made fail-safe in some undescribed, hypothetical manner is pure speculation and does not establish a foundation upon which to base a seven million dollar verdict.

The District Judge's error was compounded by his rejection of defendant's definition of fail-safe and the substitution of some lesser standard which he never defined. Singer's position, as described by the District Judge, was that it would not market a product which "could leave the purchaser . . . less safe than if he hadn't elected to purchase

it." This definition warranted approbation, not the ridicule accorded it by the District Judge.[14]

In contrast to defendant's laudable standard, the criteria for reliability of plaintiff's expert, which the District Judge presumably accepted, was that the device "had to function without failures *within warrantee periods* or at least, with a good knowledge of statistical probability, that had to be quite low, *within a warrantee period of a car.*" [Emphasis supplied]. This witness' definition of fail-safe, which is a classic illustration of gobbledygook, was as follows:

> Well, inasmuch as a main function of skid control is to displace and reapply brake fluid, or in other words to release and reapply brakes, a fail-safe criteria to monitor this function was established, and it was established in a way that if such function exceeded an acceptable or reasonable period of time, then the system is to bypass itself.

The Federal Motor Vehicle Safety Standards promulgated pursuant to the National Traffic and Motor Vehicle Safety Act of 1966, 15 U.S.C. §§ 1381 *et seq.*, provide that, in the event of a rupture or leakage type of failure in a service brake system, the remaining portions of the system shall continue to operate and stop the vehicle within certain prescribed distances. 49 C.F.R. § 571.105-75, S 5.1.2. They then provide that, in the event of failure in an anti-skid device, "structural or functional", the vehicle shall be capable of meeting the stopping distance requirements of S 5.1.2. 49 C.F.R. § 571.105-75, S 5.5.

14. The District Judge stated that the only mechanical device which could meet this test would be a wedge, "the simplest tool known to man".

The standard set forth in these regulations is, I submit, exactly the standard prescribed by the defendant, *i.e.*, one that "does not impair the utility of the underlying system to which it is attached". It is not an impossible standard as described by the District Judge, but one upon which any member of the motoring public should have the right to rely. The District Judge's acceptance of a less rigorous definition of fail-safe, a definition which plays fast and loose with the lives of prospective purchasers of plaintiff's supposed safety device, vitiates his entire opinion concerning the feasibility of perfection. Perfection, if defined with sufficient latitude and imprecision, is readily attainable. I think, however, that both the defendant and the motoring public were entitled to more thoughtful consideration of the standards of safety than was given them by the District Judge.

Evidentiary Support For the Computerized Simulations

Because plaintiff's case against the defendant rested almost entirely upon the results of computerized simulations, the accuracy and reliability of such computerization was a pivotal issue in the law suit. The District Judge recognized this at the outset when he said that the opinion of plaintiff's expert would be "thrown out" if not properly connected. The Judge promised that, when plaintiff's computer expert was produced, "we will find out where [the figures] came from, in the sense of what mathematical formulas, what type of programming was used, and so on and so forth."

However, when plaintiff's computer expert finally testified, he refused to disclose the manner in which the computer was programmed to create the evidence used on trial,

on the ground that it was his "private work product" and was proprietary information.[15] Despite the assurance of defense counsel that defendant would recognize the confidentiality of such information except for purposes of the litigation, the District Judge upheld plaintiff's refusal to permit defense counsel to examine the programs. This ruling, which required defense counsel to attack the credibility of plaintiff's proof with one hand tied behind his back, was prejudicially erroneous.

As courts are drawn willy-nilly into the magic world of computerization, it is of utmost importance that appropriate standards be set for the introduction of computerized evidence. Statements like those of the District Judge that a computer is "but calculators [sic] with a giant 'memory' and the simulations the computer produces are but the solutions to mathematical equations in a 'logical' order" represent an overly-simplified approach to the problem of computerized proof which should not receive this Court's approval.

> Although the computer has tremendous potential for improving our system of justice by generating more meaningful evidence than was previously available, it presents a real danger of being the vehicle of introducing erroneous, misleading, or unreliable evidence. The possibility of an undetected error in computer-generated evidence is a function of many factors: the underlying data may be hearsay; errors may be introduced in any one of several stages of processing; the computer might be erroneously programmed,

15. Although it was not disclosed whether plaintiff's witness had protected his program under the copyright laws, such protection was available if needed. *Gottschalk* v. *Benson,* 409 U.S. 63, 72 (1972).

> programmed to permit an error to go undetected, or programmed to introduce error into the data; and the computer may inaccurately display the data or display it in a biased manner. Because of the complexities of examining the creation of computer-generated evidence and the deceptively neat package in which the computer can display its work product, courts and practitioners must exercise more care with computer-generated evidence than with evidence generated by more traditional means.

Roberts, A Practitioner's Primer on Computer-Generated Evidence, 41 U. Chi. L. Rev. 254, 255-56 (1974).

There are those knowledgeable in the field of computerization who believe that new evidentiary rules will be required to channel and control the use of this new medium. Freed, Computer Records and the Law—Retrospect and Prospect, 15 Jurimetrics J. 207, 208 (1975). Indeed, much non-judicial effort has already been expended in this field, and specific recommendations have been made. *See e.g.,* Federal Judicial Center, Manual for Complex Litigation § 2.717 (1973); ABA Sub-Committee on Data Processing, Principles of Introduction of Machine Prepared Studies (1964). *See also* Bibliography of Representative Articles and Comments in Freed, *supra,* 15 Jurimetrics J. at 218.

Judicial decisions to date have largely skirted the edge of the problem because they have been concerned mainly with computerized records made in the regular course of business. *See United States* v. *Russo,* 480 F.2d 1228 (6th Cir. 1973), *cert. denied,* 414 U.S. 1157 (1974); *United States* v. *DeGeorgia,* 420 F.2d 889 (9th Cir. 1969); *Olympic Ins. Co.* v. *H.D. Harrison, Inc.,* 418 F.2d 669 (5th Cir. 1969);

D & H Auto Parts, Inc. v. *Ford Marketing Corp.*, 57 F.R.D. 548 (E.D.N.Y. 1973). Routinely prepared records, admitted pursuant to business records acts such as 28 U.S.C. § 1732 (a) are well recognized exceptions to the hearsay rule, because their regular use in the business of the company insures a high degree of accuracy. Proof of day-to-day business reliance upon computerized records should therefore make less onerous the burden of laying a proper foundation for their admission. *United States* v. *Russo, supra,* 480 F.2d at 1239-40.

Where, however, a computer is programmed to produce information specifically for purposes of litigation, an entirely different picture is presented. Its product, which is hearsay and conclusory, is not admissible under 28 U.S.C. § 1732(a) or similar state statutes. *United States* v. *DeGeorgia, supra,* 420 F.2d at 895; *Melinder* v. *United States,* 281 F. Supp. 451 (W.D.Okla. 1968). Under such circumstances, a court should not permit a witness to state the results of a computer's operations without having the program available for the scrutiny of opposing counsel and his use on cross-examination. *United States* v. *Dioguardi,* 428 F.2d 1033 (2d Cir.), *cert. denied,* 400 U.S. 825 (1970). Moreover, such availablility should be made known sufficiently in advance of trial so that the adverse party will have an opportunity to examine and test the inputs, program and outputs prior to trial. *United States* v. *Russo, supra,* 480 F.2d at 1241.

Long before the age of computers, the law was established that an expert witness might refer to records such as elaborate mathematical calculations, if, but only if, such records were made available for inspection by opposing counsel and thorough cross-examination thereon was permitted. *Edwards* v. *Sears, Roebuck and Co.*, 512 F.2d 276, 294 (5th Cir. 1975); *Di Filippo* v. *Gargiulo, supra,* 278 App. Div. at 176. Because of the computer's "ability to package hearsay and erroneous or misleading data in an extremely persuasive format", *Roberts, supra,* 41 U.Chi.L. Rev. at 279, this rule should be strictly adhered to whenever expert testimony is predicated upon specially prepared computerized calculations or simulations.

It is a mistake to liken the program of a computer to human calculation, because the program directs the performance of tasks that humans would not attempt, in a manner that they would not elect. Jacobs, Commission's Report on Computer Programs, 49 J. Pat. Off. Soc'y 372, 374 (1964). An error in programming can be repeated time after time,[16] and simulation with an incorrect program is "worse than worthless". Favret, Introduction to Digital Computer Applications, *supra,* at 122. For this reason, programming requires great accuracy, more than that needed in other types of engineering. Ershov, Aesthetics and the Human Factor in Programming, 13 Jurimetrics J. 142 (1973).

Because the record in this case contains no information about the programming relied upon by plaintiff's experts, neither we nor defense counsel have any way of knowing whether it was complete or accurate. It may be that the District Court has "that specialized acquaintance with the subject matter which enables it to dispense with evidence

16. A recent news report stated that federal computors automatically waste millions of dollars because of mistakes programmed into their systems. As an example, the Navy was said to have taken five years to correct a computor that was automatically initiating on its own at least three million dollars in unnecessary costs annually. National Review, June 25, 1976, at 8, col. 2.

and draw upon undisclosed sources of information not available to us". *Sinko Tool & Mfg. Co.* v. *Automatic Devices Corp., supra,* 157 F.2d at 978. However, if we are to perform our function as an appellate court, we need more to review than the District Judge's modestly admitted acquaintance with "LaGrange equations".

Although the admissibility of evidence is ordinarily for the trial court, where, as here, plaintiff's entire case rests upon the accuracy of its computerized calculations, the refusal of the District Judge to subject such computations to the searching light of full adversary examination constitutes prejudicial error which mandates reversal.[17]

PROOF OF DAMAGES

There is a long line of New York cases holding it improper for a real estate expert to evaluate property by capitalizing "hypothetical income from hypothetical tenants who would be occupying a hypothetical building." *City of Binghamton* v. *Rosefsky,* 29 A.D.2d 820, 821 (3d Dep't 1968); *Wer Realty, Inc.* v. *State,* 26 A.D.2d 732 (3d Dep't 1966); *Levitin* v. *State,* 12 A.D.2d 6 (3d Dep't 1960). In the instant case, the District Judge computed damages from the hypothetical income of a hypothetical anti-skid device to be sold at a hypothetical price in a hypothetical market. In my opinion, damages based on proof such as

17. My brothers pay lip service to the rules above expressed but then completely emasculate them by holding that "Singer has not shown that it did not have an adequate basis on which to cross-examine plaintiff's experts". Where all the information concerning the programming upon which plaintiff's experts relied is kept from the defendant, it is impossible for defendant to point to the inaccuracies and omissions that might have been uncovered by full disclosure and proper cross-examination.

this are too uncertain to support a substantial award. *Friedman* v. *Golden Arrow Films, Inc.,* 442 F.2d 1099 (2d Cir. 1971); *James Wood General Trading Establishment* v. *Coe,* 297 F.2d 651 (2d Cir. 1961); *Freund* v. *Washington Square Press, Inc.,* 34 N.Y. 2d 379 (1974); *Hewlett* v. *Caplin,* 275 App. Div. 797 (1st Dep't 1949), *aff'd mem.,* 301 N.Y. 591 (1950).

Moreover, even if there had been adequate proof, I do not believe that loss of anticipated profits should be the proper measure of damages in a case such as this. There are two separate and distinct classes of implied contracts: those implied in fact as a result of the acts of the parties, and those implied in law as the result of the application of equitable principles. *See* cases cited in n.1 *supra.* Contracts implied in fact are true contracts; those implied in law are quasi-contracts. *Id.* A contract should not be implied in fact against the declarations and intentions of the parties or where the facts are inconsistent with its existence. *Miller* v. *Schloss,* 218 N.Y. 400, 406 (1916); 3 Corbin on Contracts §§ 564, 569 (1960). While courts which declare the existence of quasi-contractual liability often do so on the basis of a somewhat fictional finding of intent, we have described this as a "good formula by which to square doctrine with result". *Parev Products Co.* v. *I. Rokeach & Sons, Inc., supra,* 124 F.2d at 149.

There was no true or actual agreement to perfect in the instant case. In the face of plaintiff's adamant and continued claim that its anti-skid device was at all times marketable and ready for mass production and the specific language of the written contract that there were no undertakings other than as expressly set forth therein, there could have been no actual mutual intent that defendant

was obligated to perfect plaintiff's device and make it marketable. If any such obligation on defendant's part is to be implied, it must be an obligation implied in law, or a quasi-contractual obligation. If this is so, the quasi-contractual measure of damages should be applied for its breach.

In the early days of the law, when the cause of action for simple and implied contract was in assumpsit, damages were measured by the consideration given rather than the value of defendant's performance. 11 Williston, Contracts § 1338, at 201 (3d ed. 1968). Williston says that:

> [s]uch a rule was natural when assumpsit was regarded as in the nature of a tort for deceit, and when, therefore, it might well seem that the law should put the plaintiff in as good a position as he was in before the contract was entered into rather than in as good a position as we would have been in had the performance of the contract been fully carried out. *Id.*

We have long since passed beyond the limitations of this rule in actions for breach of contract. And yet, there are those who have questioned the logic of the change. Fuller and Perdue, Jr., in The Reliance Interest In Contract Damages, 46 Yale L.J. 52, 56 (1936), state that, "In passing from compensation for change of position to compensation for loss of expectancy, we pass . . . from the realm of corrective justice to that of distributive justice. The law no longer seeks merely to heal a disturbed status quo, but to bring into being a new situation." They conclude that it is no easy thing to explain why the normal rule of contract recovery should be that

which measures damages by the value of the promised performance.

The theory of the remedy in quasi-contract continues to be corrective justice, *i.e.,* that the parties should be placed substantially *in status quo*. *Woodward,* The Law of Quasi-Contracts § 268. For contracts implied in law, or quasi-contracts, the measure of recovery is generally the amount of the unjust enrichment of the defendant. 1 Corbin on Contracts § 19, at 50 (1963).

Courts which parrot the word "intent" in the process of finding a quasi-contractual obligation have little difficulty in applying contractual rules of damage for its breach. However, if quasi-contracts are not true contracts but rather obligations implied in law to prevent injustice, the remedy for their breach should be no more than the restoration of the status quo, not an award based upon the expectancy of gain from the impliedly promised performance. *Hewlett* v. *Caplin, supra.*

It is obvious from the foregoing that the issues raised by appellant on appeal are more numerous and complex than would appear from the majority opinion. While I sympathize with my brothers' desire to bring this protracted litigation to an expeditious end, I think we should lay it to rest only after the parties have had their case fairly heard and decided. For all of the foregoing reasons, I respectfully dissent.

APPENDIX K

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

At a stated term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Court House, in the City of New York, on the second day of September, one thousand nine hundred and seventy-six.

PERMA RESEARCH & DEVELOPMENT COMPANY,
Plaintiff-Appellee-Appellant,

v.

THE SINGER COMPANY,
Defendant-Appellant-Appellee.

A petition for rehearing containing a suggestion that the action be reheard in banc having been filed herein by counsel for the appellant, and no active judge or judge who was a member of the panel having requested that a vote be taken on said suggestion,

Upon consideration thereof, it is

Ordered that said petition be and it hereby is DENIED.

IRVING R. KAUFMAN

Irving R. Kaufman, *Chief Judge*

Appendix K

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Court House, in the City of New York, on the 2nd day of September, one thousand nine hundred and seventy-six.

Present: HON. WILLIAM H. TIMBERS,
HON. ELLSWORTH VANGRAAFEILAND,
Circuit Judges

HON. TOM C. CLARK, *Associate Justice*

Docket No. 75-7362

PERMA RESEARCH & DEVELOPMENT COMPANY,
Plaintiff-Appellee-Appellant,

v.

THE SINGER COMPANY,
Defendant-Appellant-Appellee.

A petition for a rehearing having been filed herein by counsel for the appellant

Upon consideration thereof, it is

Ordered that said petition be and hereby is denied.

A. DANIEL FUSARO

A. Daniel Fusaro, *Clerk*

VINCENT A. CARTIN
Chief Deputy Clerk

Supreme Court, U. S.
FILED
NOV. 5 1976
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

RESPONDENT'S BRIEF IN OPPOSITION

JUSTIN N. FELDMAN
POLETTI FREIDIN PRASHKER
FELDMAN & GARTNER
1185 Avenue of the Americas
New York, New York 10036

Attorney for Respondent

Of Counsel:
BARBARA A. LEE

TABLE OF CONTENTS

	PAGE
Argument	1
I—Petitioner seeks review of an abstract question not decided by the court below	2
II—This case presents no important question of federal law	4
III—There is no conflict with decisions in other Circuits	9
Conclusion	12

TABLE OF AUTHORITIES

Cases:

Moor v. Texas & New Orleans R.R., 297 U.S. 101 (1936)	7
Pearl Brewing Co. v. Jos. Schlitz Brewing Co., No. 71-H-778A (S.D. Tex. filed May 3, 1976)	8, 9
Thorpe v. Housing Authority of Durham, 393 U.S. 268 (1969)	4
United States v. DeGeorgia, 420 F.2d 889 (9th Cir. 1969)	10
United States v. Dioguardi, 428 F.2d 1033 (2d Cir.), *cert. denied*, 400 U.S. 825 (1970)	8
United States v. Liebert, 519 F.2d 542 (3d Cir.), *cert. denied*, 423 U.S. 985 (1975)	9, 11
United States v. Nobles, 422 U.S. 225 (1975)	7
United States v. Russo, 480 F.2d 1228 (6th Cir. 1973), *cert. denied*, 414 U.S. 1157 (1974)	10

PAGE

Statutes and Rules:

FED. R. CIV. P. 26(b)(4)(B) 8
SUPREME COURT RULE 21(1) 5

Other Authorities:

Brown, *Electronic Brains and the Legal Mind: Computing the Data Computer's Collision with Law*, 71 YALE L.J. 239 (1961) 4
Note, 40 BKLYN. L. REV. 116 (1973) 4

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

RESPONDENT'S BRIEF IN OPPOSITION

Argument

In this diversity action for breach of contract, no substantive question of federal law is presented. The only issues on appeal to the United States Court of Appeals for the Second Circuit were whether the trial court's findings were supported by substantial evidence, and whether Petitioner was prejudiced by certain evidentiary rulings. The judgment having been affirmed, Petitioner now seeks review

by this Court of the Court of Appeals' holding (a) that the trial court did not abuse its discretion in receiving certain computer-generated evidence which formed one of the bases for the opinion of one of plaintiff's expert witnesses (Appendix J, p. 136a) and (b) that Petitioner did not show "that it did not have an adequate basis on which to cross-examine plaintiff's experts" (*Id.*, p. 137a). Although Petitioner sought review of that decision by the entire bench of the Second Circuit on the same grounds here relied on, no judge of that Court thought that the decision in this case created a "compelling need for proper standards" to be established for admissibility of "computerized evidence" in that Circuit, as Petitioner now urges this Court to do for all Circuits.[1] In view of the questions presented to the Second Circuit and its disposition of them, it is apparent that none of the "special and important reasons" for this Court to grant *certiorari* is present.

I

Petitioner seeks review of an abstract question not decided by the court below.

The holding of the Court of Appeals on the issue now presented for this Court's review was carefully limited to the facts of this case. Mr. Justice Clark, writing for the majority, expressed it as follows:

> "While it might have been better practice for opposing counsel to arrange for the delivery of all details of the underlying data and theorems employed in these simulations in advance of trial in order to avoid unnecessarily belabored discussion of highly technical, tangential issues at trial, Fed. R. Civ. P. 26(b)(4)(A), *the trial judge did not abuse his discretion in allowing the experts to testify* as to this particular basis for their ultimate conclusion that the Perma device was indeed perfectible. While delivery of the actual computer programs would not appear to serve much purpose apart from delivery of the data and scientific formulae employed, the production of such programs in advance of trial with suitable protective orders to protect truly proprietary aspects of the programs also would have been better practice. *On the record before us, however, we hold that Singer has not shown* that it did not have an adequate basis on which to cross-examine plaintiff's experts."

(Appendix J, pp. 136a-137a, emphasis added.) The quoted passage is the entire text of the Court of Appeals' ruling on the issue this Court is now asked to review. Nowhere did it hold, as Petitioner contends

> "(a) that disclosure of computer programs, admittedly containing the 'data and scientific formulae employed', is not a required foundation for admission of the results of computer simulations; and (b) that disclosure of computer programs is not necessary to effective cross-examination of witnesses stating the results of computer simulations".

(Pet. 5). In the absence of any such broad holding, Petitioner's suggestion that this Court use this case as a vehicle for setting "Basic Standards" for the "Proper Administration of Justice" with respect to the admissibility of computer-generated evidence (Pet. 6) is, then, nothing more than a request for this Court to decide an "abstract, hypothetical or contingent question," which we respectfully submit that the Court should decline to entertain for the rea-

1. Petition for Certiorari (hereinafter "Pet."), p. 6.

sons set forth in *Thorpe v. Housing Authority of Durham*, 393 U.S. 268, 283-84 (1969).

Even if the abstract question this Court is asked to review had been decided by the court below, it would still be inappropriate for review on *certiorari*, for neither of Petitioner's two "Reasons for Granting the Writ" survive analysis.

II

This case presents no important question of federal law.

Although the Petition is replete with references to "the magic world of computerization" (Pet. 5) and to all the many kinds of errors which may theoretically appear in computer-generated evidence (Pet. 6), there is no "magic" here involved. A computer program, as Petitioner itself acknowledges, is nothing more than the set of step-by-step directions which triggers the mechanical operations a computer performs on the data fed into it.[2] Here, Petitioner was furnished with all of the substantive information from which the mechanical operations performed by the computer could readily have been reconstructed; its complaint that those operations should also have been embodied in and formally produced in the form of a single convenient document or thing is thus nothing more than a formal objection, altogether without substance. All of the information Petitioner needed to attack the reliability of the com-

2. See Pet. 8, quoting Brown, *Electronic Brains and the Legal Mind: Computing the Data Computer's Collision with Law*, 71 YALE L.J. 239, 243 (1961) and Note, 40 BKLYN. L. REV. 116, 117 (1973).

puter simulations was furnished. All of the computer input—the data and scientific formulas employed in the simulations—was in evidence, and the expert witness who was the author of the program testified in open court as to the assumptions and decisions reflected in the program, and the reasons for them. Petitioner's experts thus had all the information necessary to write their own program; if their results—computer output—had then differed from those offered in evidence by Respondent, no further "foundation" would have been necessary to attack the reliability of Respondent's computer-generated evidence.[3] Mr. Justice Clark's observation that "delivery" of the program would have served little additional purpose although pretrial "production . . . would have been better practice" (Appendix J, p. 137a), is, therefore, hardly as "astonishing " as it seems to Petitioner (Pet. 11), but simply a further indication that the decision in this case was limited to its own facts.

Petitioner's argument that this case presents an important question of law (nowhere precisely defined in the Peti-

3. Petitioner did not elect to certify any portion of the record pursuant to this Court's Rule 21(1) prior to filing herein. Respondent has accordingly, pursuant to that Rule, requested the Clerk of the Court of Appeals for the Second Circuit to certify and transmit to this Court the portions of the record cited in this Brief. The relevant portion of the cross-examination of Petitioner's expert DeVilliers, the author of the program, appears at Tr. 3067-86 and 3712-3891. The input information, from which Petitioner's experts could have duplicated the simulation had they elected to do so appears in Plaintiff's Exhibits 23, 132, 133, 133A, 134, 135, 142 and 143 and Tr. 2964-70, 2984-88, 3014, 3926-27. Petitioner in fact retained an expert for this purpose (Tr. 7932) during a three-week recess that interrupted the cross-examination of DeVilliers (Tr. 3091, 3712). Thereafter it abandoned this strategy, for reasons never explained on the record (Tr. 7932), giving rise to the inescapable inference that the results obtained by Petitioner's expert did nothing to contradict those offered in evidence by Respondent.

tion) relies heavily on a statement in the dissenting opinion below which is itself factually inaccurate:

> "Because the record in this case contains no information about the programming relied upon by plaintiff's experts, neither we nor defense counsel have any way of knowing whether it was complete or accurate."

(Appendix J, p. 161a, quoted in Pet. 10). The record abounds, however, in such information. Petitioner had the opportunity to cross-examine the expert who did the actual programming, and questioned him in exhaustive detail about the logical and analytical assumptions underlying the computer program, the reasons for them, and the extent to which the program simulated particular features of the anti-skid device.[4] The computer input was not only in evidence but some of it was derived from and published in standard university textbooks.[5] The record in this case thus clearly supports the Court of Appeals' holding that Petitioner has not shown that it did not have an adequate basis on which to cross-examine Respondent's experts (Appendix J, p. 137a).

Petitioner's reliance on the dissenting judge's view that "[Respondent's] entire case rests upon the accuracy of its computerized calculations" (Pet. 3, quoting Appendix J, p. 162a) is equally misplaced. The majority of the Court of Appeals understood and said that the simulation was but one basis for the opinion of Respondent's experts; as Mr. Justice Clark put it:

> "the trial judge did not abuse his discretion in allowing the experts to testify *as to this particular basis* for their

4. Tr. 3067-86, 3712-3875.

5. Tr. 2967, 2906.

> ultimate conclusion that the Perma device was indeed perfectible."

(Appendix J, pp. 136a-37a, emphasis added.) Respondent's principal expert witness based his opinion upon, among other things, the patents relating to the anti-skid device; diagrams, schematic drawings and models of the device and its various components, including proposed "fail-safe" modifications; documents relating to Petitioner's specific criticisms of the device,[6] and reports relating to empirical tests of the device,[7] as well as on the simulations which were separately authenticated by the programmer. The trial court's finding that the Perma anti-skid device was perfectible was expressly based upon "all of the evidence" (Appendix G, p. 83a).

Respondent's "important question of law" is, then, nothing more than the difference between the dissenting judge's view of the record below and that of the majority, expressed in the language of Mr. Justice Clark which we have quoted above, pp. 2-3. The very nature of this difference clearly demonstrates the factual nature of the controversy this Court is now asked to review. All that was decided here was an issue committed to the trial court's discretion, of the type which this Court has consistently declined to review, *e.g., United States v. Nobles,* 422 U.S. 225, 242 (1975); *Moor v. Texas & New Orleans R.R.,* 297 U.S. 101, 105 (1936). The precise question on which that discretion was exercised—admission of expert testimony based in part on computer-generated evidence without ordering pro-

6. Tr. 2451-55.

7. Tr. 2467, 2478; PX 19, 21; DX 12; Tr. 354. *See also* Appendix G, p. 124a.

duction of the computer program—is hardly of sufficiently far-reaching importance to warrant consideration by this Court, much less the broad prospective rule-making in which Petitioner asks the Court to indulge.

Only one case appears to have presented the precise question here involved, admissibility of evidence produced by "a computer . . . programmed to produce evidence specifically for trial" (Pet. 8). In *United States v. Dioguardi*, 428 F. 2d 1033 (2d Cir.), *cert. denied*, 400 U.S. 825 (1970), the Second Circuit severely criticized the prosecution's use of computer-generated evidence without having furnished the program to the defense, but held, as it did here, that, on the record before it there was no prejudice, because the defense had ample other means for attacking the computer-generated evidence.[8] Thus the rarity with which the precise question presented in this case and the *Dioguardi* case has arisen further refutes Petitioner's claim that an important question of law is somewhere lurking in those two discretionary rulings. This obvious lack of urgency is not overcome by Petitioner's prediction that "computers will be increasingly used to provide evidence in trials." (Pet. 6). There is nothing in this case, or in the Petition, to suggest that existing evidentiary and procedural rules are not sufficiently flexible to respond to such a situation.

8. The unreported ruling of a District Court on pre-trial discovery motions in *Pearl Brewing Co. v. Jos. Schlitz Brewing Co.*, No. 71-H-778A (S.D. Tex. filed May 3, 1976), also cited by Petitioner, is irrelevant. The program relating to the computer-generated evidence in that case had already been produced voluntarily (in contrast to the present case, no issue as to its proprietary character appears to have been involved), and the District Court's opinion dealt with the extent to which defendant would be permitted to depose plaintiff's non-trial experts pursuant to FED. R. CIV. P. 26(b)(4)(B).

III

There is no conflict with decisions in other Circuits.

Petitioner next argues that the decision below "conflicts with decisions of other courts of appeal" which it characterizes as holding that disclosure of the computer program is necessary (1) "as a proper foundation for computer-generated evidence" and (2) "for meaningful cross-examination" (Pet. 10). In fact, no case in any Circuit has required production of a computer program for either purpose.

Three Courts of Appeals cases are cited in support of Petitioner's "foundation" argument.[9] *United States v. Liebert*, 519 F.2d 542, 547 (3d Cir.), *cert. denied*, 423 U.S. 985 (1975), dealt only with pre-trial discovery, in connection with which the Court of Appeals observed by way of dictum that

> "The introduction of a computer printout is admissible in a criminal trial provided that the party offering the computer information lays a foundation sufficient to warrant a finding that such information is trustworthy and the opposing party is given the same opportunity to inquire into the accuracy of the computer and its

9. *Pearl Brewing Co. v. Jos. Schlitz Brewing Co.*, discussed above, p. 8, is also cited for this proposition (Pet. 11). Since the motions before the District Court in that case dealt with the scope of pre-trial discovery of adverse experts, the foundation to be required for their evidence if the case ever came to trial was not in issue. Even if it were, that would hardly be a "special and important reason" for this Court to review the decision of the Second Circuit in this case. It is not the purpose of *certiorari* to afford an opportunity to reconcile appellate decisions with those of every court of inferior jurisdiction in the federal system.

input procedures as he has to inquire into the accuracy of written business records."

Neither the nature of the foundation required nor the relevance of the computer program thereto is discussed. In both *United States v. Russo,* 480 F.2d 1228 (6th Cir. 1973), *cert. denied,* 414 U.S. 1157 (1974), and *United States v. DeGeorgia,* 420 F.2d 889 (9th Cir. 1969), computer evidence was in fact received without production of the program, and, as in the present case, the weight of the computer evidence was explored by cross-examination of live expert witnesses about the procedures employed. In *Russo,* the Court of Appeals for the Sixth Circuit held that an adequate foundation was laid for the admissibility of summaries of computer printouts where qualified experts testified —exactly as the programmer did here—as to the accuracy of the input and "the nature of the information which went into the machine and upon which its printout was based," 480 F.2d at 1241. In *DeGeorgia,* although the Government "presented foundation evidence as to input procedures used," the Court of Appeals expressly declined to pass upon the adequacy of the foundation, 420 F.2d at 893, note 11.[10]

Petitioner's "foundation" argument, then, is based exclusively on cases in which computer-generated evidence was received *without* production of the program; far from demonstrating a conflict in the Circuits, these cases are entirely consistent with the ruling below.

10. The concurring opinion of Judge Ely, which Petitioner cites separately as in "conflict" with the decision herein, discusses foundation requirements in some detail, yet nowhere says that laying a foundation requires production of a program.

Petitioner's "meaningful cross-examination" argument is equally fanciful. In the face of Mr. Justice Clark's unambiguous finding that petitioner "has not shown that it did not have an adequate basis on which to cross-examine plaintiff's experts," (which Petitioner characterizes as "sophistry" (Pet. 12)), Petitioner asks this Court to impose an inflexible black-letter rule that delivery or production of a computer program should be an absolute prerequisite to the admissibility of computer-generated evidence. In support of this argument, it makes the bald statement that the Second Circuit's decision herein "is in conflict with other Federal Courts which have found that disclosure of the information contained in computer programs is necessary to cross-examination" (Pet. 14). No case has in fact so held.

Petitioner's only authority for this proposition is a partial quotation from *United States v. Liebert,* 519 F.2d 542, 550 (3d Cir.), *cert. denied,* 423 U.S. 985 (1975) (Pet. 14), which not only is not in point, but when read in context lends considerable support to the opposite conclusion. In that case, defendant was accused of failure to file income tax returns, and the Government intended to rely at trial primarily on evidence that its computer contained no record of such filings. Defendant sought production of the Internal Revenue Service's "nonfiling lists"—computer *output* —which he hoped to show included taxpayers who had in fact filed, as he contended he had done. The Court of Appeals upheld the Government's refusal to produce the lists on the ground that there was no need to invade the privacy of third persons as long as there were reasonable alternative means of challenging the Government's computer evidence. The five alternative means that the Government

offered are described at length in the Court of Appeals opinion, 519 F.2d at 550, and did not include production of a computer program. "Such alternatives," the Court observed in the sentence which Petitioner quotes only in part, "should provide Liebert with the information necessary to cross-examine the computer testimony confronting him by analyzing the reliability of the computer system in theory and checking the accuracy of the system in fact."

This is a far cry from holding expert testimony inadmissible at trial because the proprietary program is not produced. Mr. Justice Clark's finding that Petitioner was not prejudiced here is amply supported by the record showing full cross-examination of the programmer. It is the logic by which Petitioner now suggests that it should also have been allowed to cross-examine "the computer and its program" (Pet. 13) which is "sophistry," not the finding of Mr. Justice Clark.

Conclusion

The decision below was correct and is based upon its own special facts. It presents a very narrow question, and there is no reason for review by this Court. *Certiorari* should be denied.

Respectfully submitted,

JUSTIN N. FELDMAN
POLETTI FREIDIN PRASHKER
FELDMAN & GARTNER
1185 Avenue of the Americas
New York, New York 10036

Attorney for Respondent

Of Counsel:
BARBARA A. LEE

Dated: November 5, 1976

Supreme Court, U. S.
FILED
NOV 11 1976
MICHAEL RODAK, JR., CLERK

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1976

No. 76-508

KAYSER—ROTH CORPORATION,
Petitioner,
v.
TIGHTS, INCORPORATED,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

JACK W. FLOYD
700 Jefferson Building
Greensboro,
North Carolina 27402
Attorney for Respondent

Of Counsel:
RICHARD W. ELLIS
JAMES A. MEDFORD
SMITH, MOORE, SMITH, SCHELL & HUNTER
P. O. Drawer G
Greensboro, North Carolina 27402

TABLE OF CONTENTS

	Page
Opinion Below	2
Jurisdiction	2
Constitutional Provision Involved	2
Statutes and Rules Involved	3
Counterstatement of the Case	3
Counterstatement of the Facts	5
Reasons Why the Writ Should Not Be Granted	8
(1) Petitioner has failed adequately to preserve for review the questions it propounds to this Court.	8
(2) There is an alternate basis for the decision below.	9
(3) The Petition seeks a writ of certiorari for the inappropriate purpose of seeking a review of conflicting evidence and having facts found by a jury redetermined at the appellate level.	10
(4) There is no meaningful conflict between the Circuit Courts.	13
(5) Certiorari should not be granted to review the trial Judge's sound exercise of his discretion in determining how, after full and proper instructions, the issues relating to obviousness should be submitted to the jury.	14
Conclusion	16

TABLE OF CASES CITED

Cases:

Atlantic & Gulf Stevedores, Inc. v. Ellerman Lines, Inc., 369 U.S. 355, 358-359 (1962) 12

Graham v. John Deere Co., 383 U.S. 1 (1966) ... 14

Great A & P Tea Co. v. Supermarket Equipment Corp., 340 U.S. 147 (1950) 11,12,13

Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, 393 (1923) 14

Moore v. Schultz, 491 F. 2d 294 (10th Cir. 1974) *Cert. denied*, 419 U.S. 930 (1974) 13

National Labor Relations Board v. Pittsburgh Steamship Co., 340 U.S. 498, 503 (1951) 12

Panther Pumps & Equipment Co., Inc., v. Hydrocraft, Inc., 468 F. 2d 224, 227-8 (7th Cir. 1972), *cert. denied*, 411 U.S. 685 (1973)... 15

Rice v. Sioux City Memorial Park Cemetery, Inc., 349 U.S. 70, 74 (1955) 10

Sakraida v. Ag Pro, Inc., 96 S. Ct. 1532 (1976).. 12

Spound v. Mohasco Industries, Inc., 534 F.2d 404 (1st Cir. 1976), *cert. denied*, No. 76-197, October 12, 1976 10,13

"SS Monrosa" v. Carbon Black Export, Inc., 359 U.S. 180, 183-84 (1959)..... 9, 10

Tyrrell v. District of Columbia, 243 U.S. 1, 5, 6 (1917) 8, 9

Other Authorities:

Constitution of the United States, Amendment VII 2

35 U.S.C. § 102 4,9

35 U.S.C. § 103 4,5

Rule 50, Fed. R. Civ. P. 4

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1976

No. 76-508

KAYSER—ROTH CORPORATION,

v. *Petitioner,*

TIGHTS, INCORPORATED,

Respondent

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

To the Honorable, the Chief Justice and the Associate Justices of the Supreme Court of the United States:

Tights, Incorporated, respondent herein, prays that the petition for writ of certiorari filed herein by Kayser—Roth Corporation, petitioner, be denied.

Opinion Below

The opinion of the Court of Appeals is not yet officially reported. The entire opinion is set forth as Appendix A of the Petition, la through 27a.

Jurisdiction

The jurisdictional requisites are adequately set forth in the Petition.

Counterstatement of Questions Presented

1. Whether, after a nine-day trial that developed ample evidence to support the findings of the jury and the District Court's judgment of patent validity, the Appellate Court should be required to redetermine the facts found by the jury.
2. Whether, when the jury has been fully and properly instructed as to the required factual elements underlying a determination of non-obviousness, the District Court abused its discretion in submitting the obviousness issue in a form permitting a "yes" or "no" response.

Constitutional Provision Involved

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law. United States Constitution, Amend. VII.

Statues and Rules Involved

The statutes and rules involved are correctly set forth in the Petition.

Counterstatement of the Case

The patent in suit — Rice Reissue Patent No. RE 25,360 — expired on March 18, 1975. It originally issued in 1958 and reissued in 1963, and, as the Court of Appeals recognized, described what later came to be known as panty hose (Pet. 3a.).* The claim was limited to circularly knit (or seamless) panty hose "with a single U-shaped seam running from the front to the back through the crotch area and having no intervening crotch piece or gusset" (Pet. 3a).

In October, 1974, the patent's validity was the subject of a nine-day jury trial. At the close of all the evidence, Petitioner moved for a directed verdict on the grounds that the Rice Patent had been "anticip-

---

*References to the decision by the Court of Appeals, which is not yet reported but which is set forth in full in the Appendix to the Petition, will be by reference to the appropriate page in the Petition, *e.g.*, "Pet. 3a."

Reference to the Petitioner-Defendant's exhibits at trial are prefaced by the letters "DX" followed by the exhibit number, *e.g.*, "DX 8." References to the trial transcript are preceded by the letters "TR" followed by the page number, *e.g.*, "TR 8." References to the Respondent-Plaintiff's exhibits at trial are prefaced by the letters "PX" followed by the exhibit number, *e.g.*, "PX 8." References to the Respondent's Appendix on appeal to the Circuit Court are prefaced by the letters "P. App." followed by the page number, *e.g.*, "P. App. 8."

ated" (35 U.S.C. §102(a) (b)) and that it was procured by fraud on the Patent Office. Obviousness was not mentioned by name or implication (Pet. 18a). The motion for directed verdict was denied, and the jury was fully and adequately charged on all the issues in the case. Petitioner did not challenge the Court's charge on any of the issues that are in any way presented by its Petition.

Following the charge, eight interrogatories were submitted to the jury, which answered them all in the negative, consistent with a determination of validity of the patent.* The trial judge thereupon adopted the findings of the jury as his own, and entered judgment of validity (P. App. 161).

Petitioner then made its Rule 50 motion for judgment notwithstanding the verdict. This time, however, the motion was solely on the basis of "obviousness" (35 U.S.C. § 103); "anticipation" was not included as a ground for Petitioner's post trial motion (P. App. 162). This motion, too, was denied, and Petitioner appealed to the United States Court of Appeals for the Fourth Circuit. That Court, after a full and careful review of all the evidence below, held that the jury was properly instructed as to the applicable law (a conclusion Petitioner does not challenge here), that its findings "were amply supported by the evidence," and that the judgment of the District Court should be affirmed (Pet. 27a).

---

*The only interrogatory Petitioner complains about is No. 4, directed to the § 103 "obviousness" inquiry. That entire interrogatory, in the form in which it went to the jury, is set forth *infra* at 14-15.

Specifically as to the key question of obviousness under § 103 of the patent law, the Circuit Court held, first, that Petitioner had "not preserved for . . . review the question of sufficiency of the evidence as to the non-obviousness of the Rice Patent" (Pet. 17a), because it had not made obviousness the subject of its motion for a directed verdict, either "directly by name or indirectly by concept" (Pet. 18a). It went on, however, to review the evidence fully and to hold, "as an alternative ground for . . . decision" (Pet. 18a), that even if the question *had* been preserved, "the jury's determination as to obviousness was fully supported by the record" (Pet. 22a).

Counterstatement of the Facts

The opinion of the Fourth Circuit very pointedly demonstrates that the trial developed sharply conflicting evidence, much of which amply supported the findings of the jury and the legal conclusion of validity of the Rice Patent. Thus, that Court recognized that, contrary to the assertions of Petitioner now, it was "as clear as any evidence adduced at the trial" that when the patent issued, Rice's invention was anything but "obvious" to Petitioner itself (Pet. 19a), not to mention the rest of the industry. Documentary evidence (PX 2;19;27;29;33;101) and testimony (P. App. 41-43; 55-56; 15-16) established that uniform disbelief in Rice's invention reigned for nearly eight years after his patent issued. One highly qualified expert found it "amazing" when, in 1966, he accidentally discovered that the Rice invention would work (Pet. 20a; P. App. 15; TR 51).

At the trial, Petitioner presented the same "prior art" documents it sets forth in its Petition under the heading "The Prior Art" (Pet. 8-9). Petitioner apparently would have it that these documents, reviewed alone and without clarification or explanation by those in the fields to which they relate, compel a conclusion of invalidity contrary to that reached by the District Court and the Court of Appeals after full familiarity with the review of the record. At the trial, however, these same references were the subject of days and days of testimony by skilled artisans and experts, designed to show what they really disclosed and taught. The Fourth Circuit, after full review of all of the record, very pointedly recognized that the testimony as to these references established, not that they anticipated or made obvious Rice's invention, but that they taught Rice's impossibility (Pet. 21a).

The Fourth Circuit was right. For example, at the trial, as here, Petitioner placed great reliance on the Sutton Patent No. 475,734. It argued that Sutton anticipated Rice and made it obvious. Yet the evidence clearly showed that Sutton was a garment made for a totally different purpose than Rice and that it was far removed from the art in which Rice worked (P. App. 36; 93). Indeed, Respondent's evidence clearly showed, among other things, that Sutton, which was a fully fashioned, not circularly knit, garment required either a crotch piece or extra fabric knitted into the crotch. (Pet. 5a). Rice's machinery was incapable of knitting extra fabric into the garment. Petitioner's own expert agreed * (P. App. 48-51).

*The jury concluded from Respondent's evidence, which the Circuit Court considered "substantial, . . . even . . . overwhelming" that the Sutton Patent had been put before the Patent Office examiner (Pet. 26a). It also specifically found, as the evidence fully supported, that Sutton was no more pertinent in any respect to the Rice claim than any of the other patents referred to in the patent application (Pet. 10a).

Likewise, Respondent's evidence showed that the Voigt Gebrauchsmuster, insofar as it disclosed anything intelligible to the artisan at all, disclosed only heavy tights with a sewn in crotch piece (P. App. 197-204); the Appleton garment disclosed men's drawers (DX 200) which called for the inclusion of a crotch piece and a fly (Pet. 15a); and the Goodman garment disclosed fully fashioned tights (Pet. 13a) with a crotch piece (Pet. 15a). Both Goodman and Appleton were cited by the Examiner in the Rice Reissue Patent. None of those references were in Rice's art of fine gauge ladies' hosiery.

The Petition calculatedly disregards all of this evidence, and much more, which so compellingly supports the conclusion that the Rice Patent is valid. Instead, petitioner repeats, as it did in the two courts below, its shilboleth that the Rice Patent is for "fourteenth century pages' pants." The phrase is totally misleading as applied to the art in which Rice worked in the year 1956. It literally ignores nine days of evidence taken at trial, dozens of patents introduced by the parties as indicative of the problem Rice sought to solve, and the limitations of the mass production machinery with which he worked, not to mention the revolution his garment caused in the ladies' seamless nylon industry (P. App. 18-19). The page boy phrase is a catchword and should not be taken as a serious statement of fact in this case. The jury, the trial judge and the Fourth Circuit penetrated its alluring veneer after full consideration of the evidence.

Reasons Why the Writ Should Not Be Granted

1. Petitioner did not preserve for review by the Court of Appeals the issues as to which it now seeks review by this Court. Where the questions presented have not been preserved below, they are not properly brought to this Court upon Petition for Certiorari. *Tyrrell v. District of Columbia*, 243 U.S. 1, 5, 6, (1917).

Specifically, at the trial of this case, Petitioner did not move for directed verdict on the question of non-obviousness. The Court of Appeals properly held that, as a result, the Petitioner and its co-defendants had "not preserved for this Court's review the question of the sufficiency of the evidenc as to the nonobviousness of the Rice Patent" (Pet. 17a).* Petitioner does not challenge this holding, but studiously ignores it and nevertheless seeks to present as questions for this Court whether the standard of review applied below was correct, and whether the factual issues relating to nonobviousness were properly presented for determination by the jury. In short, Petitioner raises the "standard" of review in a case where it has abandoned the very *right* to review on the core issue of obviousness. It raises a question about how the issue is submitted to the jury where, again, it has waived the right to

*Despite its holding, the Fourth Circuit went on to carefully review the evidence and find it ample to support the jury's findings relating to nonobviousness. This review was conducted, however, expressly "as an alternative ground for [the Court's] decision" (Pet. 18a). Discussion of the evidence as to non-obviousness does not alter the fact that the right to review was not preserved below. *See Tyrrell v. District of Columbia, supra*, 243 U.S. at 5-6.

review of the evidence on that issue. The point is, Petitioner's questions have no underpinning; they are not bottomed upon any existing issue in this case. For this reason, the entire Petition for Writ of Certiorari is "rested upon a wholly unsubstantial and non-existing ground, . . . " *Tyrrell v. District of Columbia, supra*, 243 U.S. at 4, and the matters presented are not properly before the Court. *Id.* at 6.*

2. Certiorari is not warranted where a decision on the questions presented would not alter the result of the ruling below. *See "SS Monrosa" v. Carbon Black Export, Inc.*, 359 U.S. 180, 183-84 (1959). Here, there is an alternative basis for the decision below. As noted, Petitioner did not preserve for review the question of the sufficiency of the evidence as to the nonobviousness of the Rice Patent. The Circuit Court so held, and its decision on this key issue rests independently on that basis. Thus, inquiry into the "standard of review" or into the way in which the obviousness fact inquiries were submitted to the jury, even if decided adversely to the Respondent, would not change the result of this case, where the very right to review of the evidence on the underlying question was not preserved. Under such circumstances, review by certiorari is not merited. As put in

*Neither did Petitioner preserve the right to review of the evidence on the § 102 "anticipation" issue, for in making its judgment n.o.v. motion after the trial it failed to include anticipation as a ground. The Court of Appeals took note of this (Pet. 11a n.4), and although it found it unnecessary to *hold* there had been no preservation of the right to review on this question, Petitioner's failure in this regard is clear.

"*SS Monrosa*" *v. Carbon Black Export, Inc.*, 359 U.S. 180 (1959), where a question was presented which, if decided, would not alter the stance of the Court below,

> "While this court decides questions of public importance, it decides them in the context of meaningful litigation. Its function in resolving conflicts among the Courts of Appeals is judicial, not simply administrative or managerial." *Id.* at 184.

In effect, then, the Petitioner is seeking to have this Court review an abstract or academic question. But this Court said, in *Rice v. Sioux City Memorial Park Cemetary, Inc.*, 349 U.S. 70, 74 (1955), that certiorari should not be granted to review an issue which may

> ". . . abstractly considered . . . present an intellectually interesting . . . problem . . . [T]his Court does not sit to satisfy a scholarly interest in such issues. Nor does it sit for the benefit of the particular litigants . . . 'Special and important reasons' imply a reach to the problem beyond the academic or the episodic."

3. Petitioner invites this Court to grant certiorari to rule that, in a patent case where certain facts were found by a jury, there should be an "independent adjudication" at the appellate level.* Stripped to its

---

*This Court recently denied certiorari in a case presenting essentially the same request. *Spound v. Mahasco Industries, Inc.*, 534 F. 2d 404 (1st Cir. 1976), *cert. denied* No. 76-197, October 12, 1976.

essence, Petitioner's argument is over the facts of this case; its demand is that the appellate court redetermine them. The approach is liberally to lace the Petition with statements of "fact" which are but argument or, at best, which are only statements of Petitioner's own version of the facts. This case is the product of a nine-day trial. Days of testimony from skilled artisans and experts, among others, developed sharply conflicting evidence on matters Petitioner presents here as uncontradicted. For example, Petitioner presents documentary prior art to this Court as being uncontradicted even though days of oral testimony developed considerable conflict over what the documents disclosed or taught. In sum, as the Fourth Circuit's opinion alone makes plain, there was ample evidence supporting Respondent's position on every issue in the case. The jury was fully and accurately charged.* It answered the eight interrogatories, and the District Court Judge, who heard and had opportunity to evaluate all of the evidence, adopted the findings of the jury as his own and entered judgment of validity (P. App. 161). Then, as is apparent from its decision, the Court of Appeals conducted a thorough review of the evidence, even on issues as to which Petitioner had not preserved the right to review. The Circuit Court's review was expressly conducted with full attention to the legal standards as expressed by

---

*The jury charge was completely proper. It included full instructions on the legal standards for patentability as set forth by this Court in *Great A & P Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147 (1950). Petitioner did not challenge the charge below on issues raised by its Petition, and cannot challenge it here.

this Court in *Great A & P Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147 (1950), and *Sakraida v. Ag Pro, Inc.*, 96 S. Ct. 1532 (1976). After this full review, the Circuit Court concluded that the jury was properly instructed, that its findings "were amply supported by the evidence" (Pet. 27a.), and that the District Court's entry of judgment of validity was proper.

The Petition disregards all this, however, and instead weaves *Petitioner's* so-called facts together with catch lines about "jury patents," "fourteenth century pages' pants," and "one court rule," resulting in rhetoric that has little or nothing to do with the real case. Viewed in the fundamental light of volumes of testimony, it is readily apparent that the Petition does not accurately summarize the evidence, the acts of the jury, the District Court judge, or the Court of Appeals below, and does not describe any issue worthy of review by this Court. What Petitioner really invites is that this Court grant certiorari to review conflicting evidence, and to order that the Appellate Court redetermine the facts, and more, that it redetermine them Petitioner's way. In the first place, the resolution of conflicting evidence is the purpose of the trial. A review of such evidence is hardly of the importance required to merit review by certiorari. *See National Labor Relations Board v. Pittsburgh Steamship Co.*, 340 U.S. 498, 503 (1951). More fundamentally, Petitioner's request that the Circuit Court be ordered to weigh the evidence and redetermine the facts runs directly afoul of the Seventh Amendment. As put by this Court in *Atlantic & Gulf Stevedores, Inc. v. Ellerman Lines, Ltd.*, 369 U.S. 355, 358-359 (1962),

> "[N]either we nor the Court of Appeals can redetermine facts found by the jury any more than the District Court can predetermine them. For the Seventh Amendment says that 'no fact tried by a jury, shall be otherwise re-examined in any Court of the United States than according to the rules of common law.' "

It is submitted that a request for review by this Court to rule directly contrary to the dictate of the Seventh Amendment does not warrant serious consideration.

4. Petitioner suggests (but does not cite as a "question presented") that certiorari should be granted to resolve a conflict among the various Circuits as to whether obviousness is a question of fact or of law. First, this Court has recently denied certiorari in patent cases tried to a jury where substantially identical circumstances were presented. *Spound v. Mohasco Industries, Inc.*, 534 F. 2d. 404 (1st Cir. 1976), *cert. denied*, No. 76-197, Oct. 12, 1976; *Moore v. Schultz*, 491 F. 2d 294 (10th Cir. 1974), *cert. denied*, 419 U.S. 930 (1974). Secondly, the Appellate Court here declared the obviousness question ultimately to be one of law (Pet. 22a), and it reviewed the evidence in that light. This was, of course, the result most favorable to Petitioner, and a ruling by this Court that obviousness is a question of fact could not better Petitioner's case. Finally, the "conflict," to the extent there appears to be one, is of little moment. All Courts agree that the ultimate question of validity is one of law, *Great A & P Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147 (1950), and the question of

obviousness involves three basic factual inquiries. *Graham v. John Deere Co.*, 383 U.S. 1 (1966). Thus, in all such cases, as here, basic factual determinations are reviewed in the light of basic legal requirements. There is, in short, no "real and embarrassing conflict" between the Circuits. *Layne & Bowler Corp. v. Western Well Works, Inc.*, 261 U.S. 387, 393 (1923).

5. Petitioner seeks certiorari on the grounds that the jury was asked to determine the basic factual underpinnings of obviousness in a form on the issue sheet permitting a "yes" or "no" answer. The jury was fully and fairly instructed on the basic factual inquiries underlying the question of obviousness (Pet. 24a). Petitioner does not contend otherwise. Additionally, the jury was advised *on the issue sheet itself* that, in order to answer the inquiry relating to obviousness, it must satisfy itself as to the basic factual elements this Court set forth in *Graham v. John Deere Co.*, 383 U.S. 1 (1966).*

---

*Interrogatory No. 4, as it was submitted to the jury, read as follows:

> "To answer the next Interrogatory No. 4 you must first satisfy yourselves, based on the evidence before you, on these basic factual inquiries:
>
> (1) You must determine the scope and content of the prior art; (2) you must ascertain the differences, if any, between the prior art and the claim of the patent at issue; and (3) you must determine the level of ordinary skill in the pertinent art. Against this background you must answer Interrogatory No. 4.

Interrogatory	Unanimous Answer of the Jury
4. Do you find, from clear and convincing evidence, that the differences between the claim of the Rice patent and the prior art are such that the subject matter of the claim as a whole would have been obvious, at the time the invention was made by Mr. Rice, to a person having ordinary skill in the art to which the subject matter of the claim pertains? ("Yes" or "No")	

It is apparent, then, that the jury had full information as to the basic factual inquiries involved in a determination of obviousness. It is further apparent, from the Circuit Court's opinion itself, that there was ample evidence upon which the jury could find each of the subsidiary fact questions, and that it did so find in its answer to the inquiry No. 4 (Pet. 25a).

Petitioner is left to assert, therefore, that certiorari should be granted to review the District Court's exercise of its discretion in refusing to require the jury to make detailed written findings in their own language. This same contention has been rejected by other courts, e.g., *Panther Pumps & Equipment Co., Inc. v. Hydrocraft, Inc.*, 468 F. 2d 224, 227-8 (7th Cir. 1972), *cert denied*, 411 U.S. 685 (1973) (held proper to ask jury, under proper instructions, if patent was "valid"), and it is plainly not one of those issues

of such import as to require this Court's attention by grant of certiorari.

Conclusion

For all the foregoing reasons, the Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

Jack W. Floyd
P. O. Drawer G
Greensboro,
North Carolina 27402
Attorney for Respondent

Of Counsel:

RICHARD W. ELLIS
JAMES A MEDFORD
SMITH, MOORE, SMITH, SCHELL & HUNTER
P. O. Drawer G
Greensboro, North Carolina 27402

Supreme Court, U. S.
FILED
NOV 15 1976
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITIONER'S REPLY BRIEF

MERRELL E. CLARK, JR.
WINTHROP, STIMSON, PUTNAM & ROBERTS
40 Wall Street
New York, New York 10005
Attorney for Petitioner

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITIONER'S REPLY BRIEF

Petitioner, The Singer Company (hereinafter "Singer"), files this reply to the "Brief In Opposition" (hereinafter "Opp. Br.") of Respondent, Perma Research and Development Company (hereinafter "Perma"), to Singer's Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit (hereinafter "Pet.") pursuant to Rule 24(4) of the Rules of this Court. Singer offers this Brief in reply to several arguments advanced in the Brief In Opposition which, it is submitted, on analysis can only serve to emphasize the urgent need for this Court to grant Singer's Petition and review the decision below.

ARGUMENT

Perma bases its opposition to Singer's Petition on a misreading of the majority decision below. Perma is simply wrong in contending that the question presented for review to this Court is "abstract", that no important question of federal law is involved and that the majority decision below is not in conflict with decisions of other Circuits.

I.

The Question Presented is Not Abstract; It was Central to the Holding on Both Liability and Damages.

The question presented for review is: did the Court of Appeals commit error in affirming the District Court's admission in evidence, over objection, and reliance upon the results of computer simulations prepared specifically for the purposes of trial where the proponent of the computer simulations refused to disclose the all-important computer program? Perma opens its Brief In Opposition with the argument that this question is "abstract" and "not decided by the court below" (Opp. Br. at 2-3). This contention is absurd.

The trial court held that Singer was liable for failing to successfully perfect and market an automobile anti-skid device invented by Perma. Essential to this holding and to the award of nearly $7,000,000 in damages was the trial court's finding that the device was in fact perfectible and marketable. In support of this finding, the trial judge cited only the opinion of Perma's expert which, as his opinion expressly states, had been offered and received "on the basis of the computer simulations."

Appendix G, p. 82a. As Judge Van Graafeiland stated in dissent, "Plaintiff's [Perma's] entire case rests upon the accuracy of its computerized calculations. . . ." Appendix J, p. 162a.

Singer objected to the admission in evidence of the computer simulations at trial because Perma refused to disclose the computer program (Tr. 3086-89). It moved thereafter to strike the computer simulations on the same ground (Tr. 3880-97). On appeal, Singer contended that it was error for the trial court to admit the computer simulations and to rely upon them in finding liability and damages while denying Singer access to the computer program. The majority below held that it was not. Singer now presents that ruling to this Court as error. The question is hardly "abstract".

Perma's mistaken view may stem from the lip-service given by Mr. Justice Clark to Singer's contention. Although the majority below *said* that it would have been "better practice" to require disclosure of the computer program, it *held* that the trial judge had not erred in failing to do so. Appendix J, pp. 136a-37a.

Thus, the majority below has squarely held that disclosure of the computer program is not a required foundation for admission of computer simulations and that disclosure of the program is not necessary for effective cross-examination (Pet. at 5). Singer submits that this holding is dangerous error and that the question presented is a real one, not only in the case at bar, but for future litigants who, if the decision below is permitted to stand, may be faced with the insurmountable task of combating computerized evidence created specifically for trial without knowledge of the all-important information contained in the computer programs.

II.

This Case Presents an Important Question of Federal Law.

In its Petition, Singer cited eminent authorities, including the *Manual for Complex Litigation* promulgated by the Federal Judicial Center, which have noted the increasing use of computer-generated evidence and have urged that standards be set immediately to avoid the danger of the computer being the vehicle of introducing erroneous, misleading, or unreliable evidence. Appendix J, pp. 158a-59a (dissenting opinion) (Pet. at 6-8). Perma cannot and does not squarely address the importance of the question presented. Rather, it seeks to avoid the issue by mischaracterizing the nature and role of computer programs generally and in the case at bar. Perma's arguments are untenable in either situation.

Perma contends that computer programs are no more than convenient packagings of raw data and basic formulas which "could readily have been reconstructed." (Opp. Br. at 4). This surprising assertion has not been adopted by any court which has heard this case and is belied by Perma's stated reason for refusing to disclose its program —that is, that the program was a valuable and proprietary secret. Appendix J, pp. 157a-58a (Tr. 3088). If the computer program could "readily have been reconstructed" by Singer, what can be so unique about it as to make it a valuable proprietary secret and justify the program's continued concealment by Perma?

Moreover, Perma's assertion that Singer had been given all of the data, information and assumptions necessary to duplicate, verify or understand the computer simulations is devastated by the testimony of Perma's own expert witness who, after admitting that the computer program had not been disclosed (Tr. 3086), testified that "any computer program has got immense amounts of data, you know, internal to it." (Tr. 3797). Perma's expert further testified that the information contained in the computer foundation exhibits (Opp. Br. at 5 n.3) only "represents some of the input data and some computer data that is relevant" (Tr. 2997) and that not all of the logical and mathematical assumptions employed in the computer simulations were disclosed (Tr. 3874-76). It is self-evident that without disclosure of all of the relevant data and all of the logical and mathematical assumptions employed, Perma's admittedly complex computer simulations could not be verified, duplicated or understood by anyone.

In a further effort to avoid the important question of federal law presented, Perma argues that its expert witness based his opinion on "other evidence" in addition to the computer simulations (Opp. Br. at 6). Again, the record is entirely to the contrary. Perma's expert testified that the computer simulations were necessary because the "other evidence" to which Perma alludes in its Brief was "contradictory" and of questionable reliability (Tr. 2637). It was only with the "benefit of hindsight from the computer runs" that Perma's expert was able to opine that "the system could have been made to meet the specifications that we intended for it to meet" (Tr. 2524). And the trial judge put this contention to rest by clearly stating in his opinion that the expert testimony upon which he relied was offered and received "on the basis of the computer simulations" Appendix G, p. 82a (Tr. 2462-63).*

* Perma's reliance on *United States v. Dioguardi*, 428 F.2d 1033 (2d Cir.), *cert. denied*, 400 U.S. 825 (1970), for the proposition that the Petition presents no important question of federal law is astonishing (Opp. Br. at 8). It has always been Singer's position that Judge Friendly's holding in *Dioguardi* that "it is quite incomprehensible that [Perma] should tender a witness to state the results of a computer's operations without having the program available for defense scrutiny and use on cross-examination if desired" is a statement of law of considerable importance which should have been

Perma's final attempt to address Singer's argument that an important question of federal law is presented by this case is its glib assertion that the issue of whether computer-generated evidence prepared specifically for the purposes of litigation is admissible without disclosure of the computer program "is hardly of sufficiently far-reaching importance" to warrant review by this Court (Opp. Br. at 7-8). In sharp contrast to Perma's unsupported assurance, the Federal Judicial Center, the American Bar Association, and eminant commentators have expressed serious concern about the dangers inherent in computer-generated evidence and have urged that appropriate standards now be established to govern its admission. App. J, pp. 158a-59a (dissenting opinion) (Pet. at 6-8, 13).

Singer reiterates that the use of computer-generated evidence will rapidly expand in future years and will be as critical to the determination of future litigations as it was to the case at bar. It is of the utmost importance that this Court, which has recently acknowledged the importance of evidentiary questions through the promulgation of the Federal Rules of Evidence, now establish fair and appropriate standards governing the admission of evidence generated by computer.

---

followed in the case at bar. 428 F.2d at 1038. As this Court will note, the judgment in *Dioguardi* was affirmed on the ground that in that case the computer-generated evidence "was a quite unnecessary frill" and was of such a simple nature that it could have been duplicated by anyone who could add and subtract. 428 F.2d at 1039. Neither consideration is applicable to the case at bar.

III.

The Majority Decision Below is in Conflict with Decisions of Other Circuits.

The Fifth, Sixth and Ninth Circuits have held that computer-generated evidence is inherently hearsay and must qualify for exception to the hearsay rule in order to be admitted (Pet. at 12-13). Perma's assertion that there exists no conflict between the majority decision below and the decisions of other Circuits totally ignores these holdings.

The sole basis for Perma's assertion is that actual disclosure of the computer program has not been required in a number of cases. But Perma overlooks the fact that in each of these cases the courts admitted the results of the computer's operations under the exception to the hearsay rule set forth by the Federal Business Records Act. 28 U.S.C. § 1332(a). Furthermore, in each case the courts held that a foundation of reliability and trustworthiness sufficient to avoid the strictures of the hearsay rule had been laid by proof at trial that the computer programs responsible for the results had been used in the normal course of business to maintain business records.

But the computer program responsible for the results of Perma's computer simulations was created specifically for use at trial and is entitled neither to a presumption of reliability and trustworthiness nor to exception to the hearsay rule by operation of statute or judicial precedent. In the case of Perma's unverified computer simulations, which served no purpose other than to provide evidence at trial, a foundation of reliability and trustworthiness and avoidance of the hearsay rule could only have been accomplished by disclosure of the computer program.

The cases cited in the Petition stand for the simple and stark proposition that the proponent of computer-generated

evidence, be it specifically prepared for litigation or not, carries the burden of laying a proper foundation of trustworthiness and reliability as well as the burden of avoiding the hearsay inherent in such evidence. In sharp conflict, the majority below held that the proponent of computer-generated evidence created specifically for litigation need not do so, and shifted to the adverse party the burden of demonstrating why it was unable to cross-examine an out-of-court computer controlled by an out-of-court computer program without disclosure of the information contained within that program.

CONCLUSION

The proper administration of justice and the unanimous views of commentators, lower courts, and the *amicus* underscore the importance of a review of this issue by this Court now.

Respectfully submitted,

MERRELL E. CLARK, JR.
WINTHROP, STIMSON, PUTNAM & ROBERTS
40 Wall Street
New York, New York 10005
Attorney for Petitioner

Dated: November 15, 1976

MOTION FILED
NOV 10 1976

IN THE

Supreme Court of the United States

OCTOBER TERM, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

v.

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MOTION OF SCM CORPORATION FOR LEAVE TO FILE BRIEF AS *AMICUS CURIAE* IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI AND BRIEF OF SCM CORPORATION AS *AMICUS CURIAE* IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

RICHARD SEXTON
299 Park Avenue
New York, New York 10017
Attorney for SCM Corporation

ARTHUR A. MUNISTERI
630 Fifth Avenue
New York, New York 10020
Of Counsel

November 10, 1976

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

v.

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

MOTION OF SCM CORPORATION FOR LEAVE TO FILE BRIEF AS *AMICUS CURIAE* IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

SCM Corporation respectfully moves this court for leave to file the accompanying brief in this case as *amicus curiae*. The consent of the attorney for the petitioner herein has been obtained, but the attorney for the respondent herein refused to consent to the filing of a brief by SCM Corporation as *amicus curiae*.

Applicant's interest in the issues presented by this action is described on pages 1-2 of the accompanying brief.

Petitioner The Singer Company has asked this Court to address the issue of whether the computer-generated materials were properly considered by the trial court. SCM believes that error and others make the decision below a particularly bad commercial law precedent.

RICHARD SEXTON
299 Park Avenue
New York, New York 10017
Attorney for SCM Corporation

ARTHUR A. MUNISTERI
630 Fifth Avenue
New York, New York 10020
Of Counsel

INDEX

	PAGE
The Interest of the *Amicus Curiae*	1
Reasons for Granting the Writ	2
Conclusion	6

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

v.

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

BRIEF OF SCM CORPORATION AS *AMICUS CURIAE* IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

The Interest of the *Amicus Curiae*

SCM Corporation ("SCM") is a diversified manufacturing company with principal offices in New York. On the appeal below, over the objection of plantiff-respondent Perma Research & Development Company ("Perma"), the Court of Appeals accepted the *amicus* brief of SCM in support of the appeal of defendant-petitioner, The Singer Company ("Singer").

This case is of widespread interest to the commercial-legal world,* and of deep concern to SCM. A company, such as SCM, which is constantly endeavoring to develop new commercially successful products is necessarily affected by a decision in which, as here, the court goes far beyond the parties' negotiated written contract to impose an unexpressed obligation upon a manufacturer engaged in the high-risk venture of bringing an untried new

---

* In a two-day Practising Law Institute course on significant new trends in licensing, given in both San Francisco and New York, half of one afternoon's session was scheduled specifically for a discussion of the district court opinion in this case. 12 PLI News No. 104, Dec. 31, 1975.

product to market. SCM's concern increases when that postulated obligation becomes the source of open-ended liability for $7 million in damages that are based upon computer simulations whose foundation is allowed to remain secret and therefore untested.

Reasons for Granting the Writ

Judge Van Graafeiland, the only member of the panel with recent experience as a practicing attorney, was "convinced that both the decision [of the district court] and the manner in which it was reached were clearly erroneous" (App. J, p. 139a). SCM submits that a careful and disinterested reading of Mr. Justice Clark's majority opinion and of Judge Van Graafeiland's dissenting opinion can lead only to the distressing conclusion that the majority opinion is similarly deficient in both conclusion and method, resulting in "a clear miscarriage of justice" (App. J., p. 147a).

Even a casual reader must be struck by the contrast between the detailed specific record references in the dissent and the cursory generalized conclusions in the majority opinion. By ignoring basic specific points raised by Judge Van Graafeiland, the majority invites the world to believe that the facts in the dissent are correct but nevertheless justify the ultimate conclusion that Singer is liable. SCM finds it impossible to entertain such a belief. Because of this factual detail in the dissent, the decision below will become even more significant as a precedent. Standing alone the majority opinion might possibly come to be regarded as merely a cryptic affirmance of the factual conclusions of the district judge, based upon a record disclosed only insofar as the district court chose to do so in support of its decision (now officially reported); but by displaying some of the undisputed evidence (quoting from documents and from plaintiff's own statements) the dissent makes it possible to compare quite closely the evidence in this case to the evidence in future cases.

Beyond the particular injustice, the Second Circuit's decision may well have an inhibiting effect on the commercial development of new products, for the risks of dealing with the independent inventor are no longer to be measured by the wording of the contract. And, in an even broader perspective, the decision is unsettling to the commercial world because it undermines general confidence in the courts' ability to deal reasonably and fairly with commercial disputes and thereby adds an element of unpredictability, of randomness, to every important contract on which businessmen rely in the ordinary course of their commercial life.

The majority accomplished these results, at least in part, through questionable judicial techniques. A significant illustration of the approach used by the majority can be seen in the way it dealt with the point which petitioner Singer wishes this Court to decide. The section of the majority opinion that rejected Singer's claim that it was deprived of its right to meaningful cross-examination of hearsay computer evidence cites *no* authority whatever, much less the recent decision by the same court which was, at the very least, in point, and the apparent controlling authority to the contrary, *viz.*, *United States* v. *Dioguardi*, 428 F. 2d 1033 (2d Cir.), *cert. denied*, 400 U. S. 825 (1970). (App. J., pp. 135a-37a). Llewellyn describes this "disregard of a case in point without mentioning it" as an "illegitimate" appellate judicial technique. K. Llewellyn, *The Common Law Tradition: Deciding Appeals*, 133 (1960). In his discussion of that kind of judicial procedure, Llewellyn states:

> "Nonetheless, and conceding the best of intentions, the cost of such procedure is excessive, it is exorbitant. To deliberately leave undealt with, unmentioned, an essentially contrary authority is to inflict upon the bar and the trial and other hierarchically lower bench unresolvable uncertainty where the duty is to give best available guidance. Who can tell whether the omission was intentional? Even if it should be suspected to be intentional, who knows whether the ghost will rise and walk? To duck and deliberately obscure the question is irresponsible judging." *Id.* at 134.

One may well ask why the majority used the cursory approach it did, showing so little concern for considerations of legitimacy of appellate decision in establishing this largely un-

explained commercial law precedent in a case which had already attracted significant attention. SCM regretfully submits that the majority decision was improperly affected by a desire to end the litigation easily. How else can one account for the following statement from the preliminary part of the majority opinion?

> "The ten-year, tortuous course of this litigation has involved five different trial judges and is here now for the second time, *and still Singer insists* that the December 18, 1964 contract does not impose upon it the obligation to perfect the anti-skid device it obtained from Perma, or if it does, that the abandonment of the contract was justifiable* on the ground that the anti-skid device was not sufficiently perfectible to satisfy Singer's standard of 'absolute fail-safety.' "** (App. J., p. 133a; emphasis supplied)

The implication that Singer's argument ought not even to have been advanced is unjustified and unseemly. Neither argument had been rejected previously by the Court of Appeals. Quite properly, Singer vigorously contested a judicially imposed *implied* obligation that plaintiff had not even asserted in its complaint (see dissent, App. J., pp. 145a-46a).

It is with respect to this claim of an implied obligation in contracts involving patents that the majority opinion will prove most troublesome as a precedent to manufacturers like SCM. The majority opinion begins by announcing that Singer's argument merits short shrift.

> "We need not belabor the point that Singer was obligated under the December 1964 contract to use its best efforts to perfect the anti-skid device covered by the

* Singer did not argue that abandonment of the *contract* was justifiable; rather Singer argued that the contract itself permitted Singer to decide that it need not continue to invest enormous sums in trying to create a device that did not exist. Singer did discontinue work on the *product* after losing well over $1 million in trying to make the venture succeed (dissent, App. J., pp. 148a-49a).

** The "absolute fail safety" standard is the court's construction. Singer's standard was that the product should not "leave the purchaser . . . less safe that if it hadn't elected to purchase it," a standard which, as the dissent states, "warranted approbation, not the ridicule accorded it by the District Judge." (dissent, App. J., pp. 155a-56a).

> Perma patents that were assigned to it." (App. J., p. 133a).

Although the majority then goes on to describe certain presumably significant facts peculiar to the Singer-Perma relationship, nowhere does it contradict any of the wealth of evidence and legal analysis contained in the dissent's treatment of this issue (App. J., pp. 139a-50a). There is nothing in the majority opinion (or in the district court decision) contradicting the dissent's description of the fundamental events: a detailed contract reached as a result of skilled negotiations, explicitly embodying the parties' entire agreement, and formal, repeated statements by plaintiff that negated the obligation whose existence the majority "need not belabor." So far as appears in any of the judicial opinions, all the factual statements in the following quotation from Judge Van Graafeiland are correct; the only difference is over the conclusion.

> "With the execution of the contract herein, defendant had approximately two million dollars invested in a device which, despite plaintiff's representations to the contrary, was unmarketable and dangerous. Implication of an obligation to perfect this device, in direct contravention of the terms of the written agreement, exacerbates, rather than rectifies, an injustice." (App. J., p. 149a)

The opinions below create confusion even with respect to the manner in which the implied obligation can be proved. According to Judge Van Graafeiland, the District Court tried the case after having, *sub silentio*, granted a partial summary judgment* in favor of Perma by postulating a Singer obligation based on an asserted intention of the parties unfounded in fact, and then denying Singer the right to adduce any evidence with respect to

* Although the majority expresses concern about the duration of litigation, it is the dissent's analysis which would result in true long-term judicial economy. If the businessmen's written agreement and Perma's formal pleadings are treated seriously, then Singer's pre-trial motions for summary judgment are correct and should have been granted. It is, after all, the purpose of both formal written contracts and Rule 56, F.R. Civ. P., to eliminate the need for protracted investigations of complex but essentially irrelevant events.

such intent, so that "the battle was half over although not a single shot had been fired." (dissent, App. J., p. 140a). Although the majority appears to take a different view of the scope of evidence permitted by the district court (App. J., p. 133a), it refers only to the district court's own description of its conduct in the district court opinion; it makes no reference to the record itself. Consequently, once more the dissent's detailed references and quotations (App. J., pp. 140a-42a) are unrefuted, thereby leaving very much in doubt the role of the pre-trial order and the latitude permitted to the trial court.

Collectively, of course, these examples show how the decision below will undermine confidence that, on appeal, conclusions of fact will truly be tested against the undisputed evidence in the record.

Conclusion

Not only does this case present an important question of evidence, as Singer explains, but it does so in the context of a decision that will be seen as unjust and inexplicable, and which has already attracted the attention of practitioners across the country. In contrast with Judge Van Graafeiland's careful and explicit attention to the record, to the rules of evidence and to applicable precedents, the majority, in an apparent overriding concern that this lengthy litigation be ended, has foregone the traditional "passive virtues" which underlie legitimacy in judicial actions. Accordingly, certiorari should be granted.

Respectfully submitted,

RICHARD SEXTON
299 Park Avenue
New York, New York 10017
Attorney for SCM Corporation

ARTHUR A. MUNISTERI
630 Fifth Avenue
New York, New York 10020
Of Counsel

Supreme Court, U. S.
FILED
NOV 17 1976
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

OBJECTION OF RESPONDENT TO MOTION OF SCM CORPORATION FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE*

JUSTIN N. FELDMAN
POLETTI FREIDIN PRASHKER
FELDMAN & GARTNER
1185 Avenue of the Americas
New York, New York 10036
Attorney for Respondent

Of Counsel:
BARBARA A. LEE

307 BAR PRESS, Inc., 132 Lafayette St., New York 10013 – 966-3906
(5636)

IN THE

Supreme Court of the United States

October Term, 1976

No. 76-509

THE SINGER COMPANY,

Petitioner,

against

PERMA RESEARCH & DEVELOPMENT COMPANY,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

---

OBJECTION OF RESPONDENT TO MOTION OF SCM CORPORATION FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE*

SCM Corporation, which had filed an *amicus* brief in the Court of Appeals, did not seek Respondent's consent to filing such a brief in this Court until after Respondent's brief in opposition to the Petition for *Certiorari* was filed on November 5, 1976. Respondent has withheld its consent for two reasons. First, neither the motion nor the accompanying brief demonstrates any substantive interest of SCM in the question presented for review. Second, SCM's

papers fail to set forth any "facts or questions of law that have not been, or reasons for believing that they will not adequately be, presented by the parties," as required by this Court's Rule 42(3). For these same reasons, we respectfully submit that the motion should be denied.

SCM does not assert that it has any interest in the evidentiary ruling of which Petitioner seeks review, although it professes "concern" that "$7 million in damages" was awarded against the party whose objections to admissibility were overruled below.[1]

Despite the broad claim that "this case is of widespread interest to the commercial-legal world"[2] it is clear from SCM's brief that it will in no way be affected by whether or not this Court accepts for review the narrow evidentiary question presented by the Petition. Any attention the District Court's judgment herein may have attracted among the patent bar arose from the District Court's construction of the contract before it, which is not an issue here.[3] Most of SCM's brief is in fact directed not to the question presented by the Petition, but to SCM's views of the possible commercial consequences of the District Court's application of New York contract law to the facts before it—all of which it presented in the *amicus* brief it filed in the Second Circuit (*see* SCM Br. p. 2). Even if SCM could

1. Brief of SCM Corporation ("SCM Br.") p. 3.

2. *Id.* at 1.

3. For example, as evidence of this "widespread interest," SCM cites "a discussion of the district court opinion in this case" at a Practising Law Institute program, SCM Br. at 1, n. That opinion, Appendix G, pp. 51a-125a, nowhere mentions the evidentiary rulings on which Singer later based its appeal strategy, including its Petition for *Certiorari*.

substantiate its gloomy prediction that the trial court's findings on the issue of the intent of the parties in connection with the contract sued upon will have an "inhibiting effect on the commercial development of new products" or on "the risks of dealing with the independent inventor,"[4] that would not be a reason for granting *certiorari* to review the question of what constitutes an adequate foundation for the admissibility of computer-generated evidence. Whatever precedent value the decision below may have in cases where the intent of contracting parties is in dispute would not be affected if this Court were to rule that the computer evidence should have been excluded; indeed, if the prior history of this protracted litigation is any guide, Judge Duffy's construction of the contract would at the very least be given great weight in the event of any retrial.[5]

SCM does not suggest that the question presented by the Petition may not be adequately dealt with by the Petitioner, or that SCM possesses any particular expertise that will assist the Court in determining whether the evidentiary rulings sought to be reviewed present any significant question of general interest or broad applicability. SCM's discussion of the question which the Petition presents for review—the Second Circuit's ruling on admissibility of certain evidence—is merely an echo of Singer's

4. *Id.* at 2-3.

5. See Judge MacMahon's discussion of the "law of the case" doctrine in his 1970 opinion denying one of Singer's several pre-trial motions for summary judgment on grounds previously considered by Judge Bryan, Appendix E, pp. 36a-37a, *Perma Research & Dev. Co. v. Singer*, 308 F.Supp. 743 (S.D.N.Y. 1970). Petitioner has not argued that the District Court's findings as to the intent of the parties present any important question of federal law meriting this Court's consideration. If what SCM really seeks is review by this Court of those findings, it has no standing to seek such review. *Cf. UAW Local 283 v. Scofield*, 382 U.S. 205, 209 (1965).

reliance on both the dictum in *United States v. Dioguardi*, 428 F.2d 1033 (2d Cir.), *cert. denied*, 400 U.S. 825 (1970) (SCM Br. p. 3; Pet. p. 13) and the dissent below (SCM Br. pp. 2, 4, 5-6; Pet. pp. 5, 7, 9-10, 11-12).[6]

Questions of standing aside,[7] the concerns of the putative *amicus* are even more abstract and hypothetical than those raised by the Petitioner.[8] Although SCM has been aware of this litigation at least since its motion to participate as *amicus curiae* in the Court of Appeals, it chose to wait three weeks after the filing of the Petition herein and several days after Respondent filed its brief in opposition, before presenting this motion. SCM suggests no substantial reason why this Court should grant this delayed application.

Respectfully submitted,

JUSTIN N. FELDMAN
POLETTI FREIDIN PRASHKER
FELDMAN & GARTNER
1185 Avenue of the Americas
New York, New York 10036

Attorney for Respondent

Of Counsel:
BARBARA A. LEE

Dated: November 15, 1976

---

6. Despite the vigorous, quotable language of Judge Van Graafeiland, the dissenting opinion provides no support for the contention that this case involves any important question of federal law. On the contrary, the dissenting judge did not vote in favor of rehearing or even request a vote on Petitioner's suggestion for rehearing *en banc*, Appendix K, pp. 166a-167a.

7. See note 5, *supra*.

8. See Respondent's Brief, pp. 2-4.